HSMAI SPECIAL REPORT
Hotel Management Company Sales Incentive Plans
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At a time when everything about hospitality sales is changing, the potential for incentive plans to recognize and motivate sales professionals has never been more important. But what makes for an effective, impactful incentive program?

HSMAI has partnered with ZS Associates on an original study that addresses this very question for hotel management companies (HMCs). This report — made possible with the support of HSMAI Organizational Member companies — presents the results of our study. Drawing on data that ZS collected from 39 HMCs, the report begins with a general outline of the five guiding principles and three defining traits of a good sales incentive plan as well as the advantages and disadvantages of different types of plans. Then we share key findings from the HMCs that ZS surveyed, including the predominant structure, performance metrics, maximum payouts, and payout frequency of their incentive plans for both directors of sales and sales managers.

You’ll also find information about the HMCs that generously contributed data to this study, which we hope is a valuable resource for your organization as you design an incentive plan that empowers and elevates your sales professionals.
Why are incentives so important?

Sales force drives the top-line
Output is typically measurable
Lack of supervision
Need to acknowledge success

Three entities are impacted by the incentive plan:
Framework for sales incentive plan design
We need to look at the entire sales compensation spectrum when thinking about a sales compensation program

**Incentives Overview**

**Compensation Guiding Principles**
- Strategic  
- Motivational  
- Simple  
- Fair  
- Fiscally Responsible

<table>
<thead>
<tr>
<th>Eligibility</th>
<th>Pay Level &amp; Mix</th>
<th>Plan Design</th>
<th>Plan Period</th>
<th>Additional Elements</th>
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<tbody>
<tr>
<td>What are the criteria for a role to receive sales compensation?</td>
<td>What level of base and variable pay is appropriate?</td>
<td>What should be the measuring metric for each of the identified components?</td>
<td>What will the payout curve look like?</td>
<td>SPIFs/contests</td>
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<td>Customer contact</td>
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<td>Commission</td>
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<td>Unit sales</td>
<td>Goal based</td>
<td>Slopes</td>
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<td>Orders</td>
<td>Forced ranking</td>
<td>Accelerators</td>
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<td>Gross margin</td>
<td>Matrix</td>
<td>Kickers</td>
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<td></td>
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<td></td>
<td>Caps</td>
<td></td>
</tr>
</tbody>
</table>

**What are the criteria for a role to receive sales compensation?**
- Customer contact
- Financial influence

**What level of base and variable pay is appropriate?**
- $200K salary
- $50K incentive

**What should be the measuring metric for each of the identified components?**
- $ sales
- Unit sales
- Orders
- Gross margin

**What plan type to choose from?**
- Commission
- Goal based
- Forced ranking
- Matrix
- MBOs
- Combination

**What will the payout curve look like?**
- Threshold
- Slopes
- Accelerators
- Kickers
- Caps

**How long is the plan period?**
- Monthly
- Quarterly
- Semi-annually
- Annually

**What is the payout frequency?**
- Monthly
- Quarterly
- Semi-annually
- Annually
Guiding Principles: A good incentive plan is strategic, motivational, fair, simple, and fiscally responsible

- **Aligned with strategy**
  - Supports sales and marketing objectives
  - Focuses on the “right” activities and customers
  - Proper emphasis / focus on key products
  - Flexible to account for changes in environment

- **Motivational**
  - Substantial effort leads to significant reward
  - Keeps most people engaged
  - Focus on what matters to salespeople

- **Fair**
  - Sellers with different conditions have similar earning potential
  - Does not penalize sellers for forecasting uncertainties

- **Simple**
  - Simple to understand and communicate to the sales force
  - Can be implemented given IC infrastructure/resources

- **Fiscally responsible**
  - Total payout is within acceptable range of budget
  - Total payout varies appropriately according to company success

Why do so many companies have difficulties designing their IC plans?

**Answer:** There are tensions between the guiding principles.

- Simple
- Fair
- Motivational
- Financially responsible
- Controllable
- Measurable
Ideally, sales incentive plan metrics should be strategic, controllable, and measurable

### Strategic
- Supports key strategic goals
- Critical to the business

### Controllable
- Mostly within the control of the salesperson
- Visibility of the link between behavior and reward

### Measurable
- Metric can be measured at the appropriate level
- Systems are able to track and report on the metric

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**Key Takeaway**

Sales incentive plans should be limited to 3 metrics, each weighted at least 20%.

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**Dimensions Requiring a Decision**

There are many decisions that can be made with regard to metrics, and each has an impact on representative behavior.

**Measurement**
- Revenue
- RevPAR
- Room nights
- Bookings

**Level**
- Person/territory
- Property
- Account (above property)
- Other team

**Point of Comparison**
- Relative to goal
- Change over time (percent, value)
Each incentive plan type has relative advantages and disadvantages; each is appropriate in certain circumstances.

### Plan Types

#### Commission Plan

- **PAY 5% OF SALES**
- New products
- Hunters
- Territory potential must be balanced

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<th>Rank</th>
<th>Payout</th>
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<tbody>
<tr>
<td>Top 10%</td>
<td>$40,000</td>
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<tr>
<td>Next 20%</td>
<td>$20,000</td>
</tr>
<tr>
<td>Next 40%</td>
<td>$10,000</td>
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<tr>
<td>Next 20%</td>
<td>$5,000</td>
</tr>
<tr>
<td>Bottom 10%</td>
<td>$0</td>
</tr>
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</table>

- Minimizes forecasting issues
- Can cause unhealthy competition
- Uncommon

#### Relative Plan

- Minimizes forecasting issues
- Can cause unhealthy competition
- Uncommon

#### Matrix Plan

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<th>Share</th>
<th>Share Growth</th>
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<td>0-20%</td>
<td>500 1000</td>
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<td>1000 1500</td>
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<td>40-60%</td>
<td>1500 2000</td>
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<tr>
<td>60-80%</td>
<td>2000 2500</td>
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<tr>
<td>&gt;80%</td>
<td>2500 3000</td>
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</table>

- Used to balance competing priorities
- Complex
- Uncommon

#### Goal Based Plan

- Territory potential considered
- Requires accurate national forecast
- Prevalent for AMs

#### MBO Plan

- Objective 1 25%
- Objective 2 15%
- Objective 3 35%
- Objective 4 25%
- **Total 100%**

- Can be subjective
- Little pay differentiation
- Administrative burden
- May not require sales data
What does the research say about payouts?

Research suggests that overachievement commission rates are critical in driving top performers.

Research suggests more frequent performance period evaluation drives higher sales, particularly for low performers.

Payout Curves

- Laggards: Bottom 20%
- Core Performers: Middle 60%
- Stars: Top 20%

-10  -7  -4  -2  -13  -17

Percent reduction in revenue seen, by segment, when no overachievement commission rates were present
Percent reduction in revenue seen, by segment, when no quarterly bonuses were present

SOURCE: HARVARD BUSINESS REVIEW, JULY-AUGUST 2012
Caps reduce the motivation of your top performers

Payout curves can be designed such that the right amount of money is paid to the right population

<table>
<thead>
<tr>
<th>GUIDING PRINCIPLE</th>
<th>OBJECTIVE METRIC</th>
<th>REP BENCHMARK</th>
<th>MANAGER BENCHMARK</th>
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<tr>
<td>Motivating</td>
<td>Engagement rate</td>
<td>90-100%</td>
<td>100%</td>
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<td>Meaningful engagement rate</td>
<td>60-80%</td>
<td>60-80%</td>
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<td>Pays for performance; Fiscally responsible</td>
<td>Median % of target payout</td>
<td>100%</td>
<td>100%</td>
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<td>Average % of target payout</td>
<td>100-110%</td>
<td>100-110%</td>
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<td></td>
<td>Excellence to target ratio</td>
<td>200-300%</td>
<td>150-200%</td>
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<tr>
<td></td>
<td>Bottom performer vs. target ratio</td>
<td>10-30%</td>
<td>30-50%</td>
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RESEARCH SETTING
Data were collated from the sales organization of a large U.S. contact lens manufacturer

KEY TAKEAWAY
9%
Improvement in revenue after caps were removed from the plan
An optimal payout curve considers performance in four payout zones

- **Underperformers**
  - Receive no payout

- **Good performers**
  - Increased payout for increased sales

- **Overachiever**
  - Accelerated payout rate for increased sales

- **Windfall possibility**
  - Payout may be due to windfall conditions rather than performance

- **Too many salespeople below threshold can result in:**
  - Loss of motivation / morale
  - Account managers holding back sales until next pay period
  - Loss of confidence in sales management
  - Note: A high threshold suggests very strong forecasting ability

- **Too many in the windfall zone can result in:**
  - Overpayment
  - Culture of entitlement
  - Low incentive to drive sales (reduced slope)
  - Account managers holding back sales until next pay period
Based on our experience, effective quota-setting processes include a variety of common characteristics:

- Territory potential must be incorporated
- Can include multiple metrics related to accounts or geographic elements
- Typical metrics include account characteristics and population demographics

**Rigorous Methodology**
- Accuracy is tested using historical simulations to check for correlations to actual sales results
- Fairness is evaluated by grouping territories with similar characteristics and observing any historical biases

**Manager Refinement**
- Local knowledge helps refine quotas to reflect on-the-ground reality and increases buy-in of sales managers
- Reasonable limits on the degree of change should be imposed, as well as a rigorous process
State of incentives in hotel management companies
Our Participants

- AMResorts
- Atlific Hotels
- Atrium Hospitality
- Benchmark Global Hospitality
- Charlestowne Hotels
- Commonwealth Hotels
- Crescent Hotels and Resorts
- Donohoe Hospitality Services
- Dow Hotel Company
- Genuine Hospitality
- GF Management
- Growth Properties Hospitality Management
- HHM Hospitality
- HVMG - Hospitality Ventures Management Group
- Hostmark
- HVS Hotel Management
- Interstate Hotels
- Kessler Collection
- Lodging Hospitality Management
- M&R Hotel Management
- Marcus Hotels & Resorts
- NCG - North Central Group
- Newport Hospitality Group
- OTO Development
- Outrigger Enterprises Group
- Pacifica Hotels
- Prism Hotels
- Regency Hotel Management
- Remington Hotels
- Sage Hotels
- Salamander Hotels
- Shaner Hotel Group
- Sound Hospitality Management
- StayPineapple
- Two Roads/CoralTree Hospitality
- White Lodging
- Widewaters Hotels
- Windsor Capital Group (WCG Hotels)
- Wright Investments
Hotel management companies use goal-based plans as the dominant compensation structure.

Hotel companies are simplifying their plans by carrying fewer metrics.

As compared to our previous study, the majority of companies build their incentive compensation plans using 3 or fewer metrics.
Revenue is the primary metric for both DOS and Sales Managers

Management companies are mostly aligned with metrics: hotel/team revenue for DOS and individual revenue for managers, with differences tied to budget, targets, and consumption.

Sales Managers have metrics based on individual contributions far more often than DOS.

* "Primary" metrics have the highest weight of all performance metrics that contribute to determining the total target incentive payout amount; sample metrics are listed in order of popularity.
Some plans also place a lower weight on Gross Overall Profit and Guest Satisfaction metrics to determine incentive pay.

Usage of RevPAR as performance metric has remained constant across the companies as compared to the previous study.
The majority of plans we collected were capped, and the max payouts for Sales Manager and DOS have converged at 30% of base.

High performers for Sales Managers averaged 28% in a previous study, slightly lower than today’s sample.

<table>
<thead>
<tr>
<th>Role</th>
<th>Minimum</th>
<th>Average</th>
<th>Maximum</th>
<th>35% Typical Max Payout from Previous Study</th>
<th>28% Typical Max Payout from Previous Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director of Sales</td>
<td>10%</td>
<td></td>
<td>50%</td>
<td></td>
<td></td>
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<tr>
<td>Sales Manager</td>
<td>10%</td>
<td></td>
<td>50%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

88% of Plans That Have Pay Caps

84%
Ranges for minimum and maximum goal attainment to determine incentive pay vary by company; most sit between 95% and 125% attainment.

Percent Goal Attainment Required for Minimum and Maximum Incentive Pay

| Range | 30% | 20% | 30% | 10% | 20% | 5% | 20% | 45% | 30% | 35% | 15% | 105% | 105% | 23% | 2% | 8% | 25% | 21% | 25% | 10% | 15% | 15% | 8% |
|-------|-----|-----|-----|-----|-----|----|-----|-----|-----|-----|-----|------|------|-----|----|----|-----|-----|-----|-----|-----|-----|----|----|

22% currently have max payout of 100%

35% currently have 100% as minimum threshold

Minimum thresholds for DOS and Sales Managers averaged 98% in a previous study, similar to our current sample.
Hotel management companies most commonly pay out incentives quarterly to both DOS and Sales Managers.

The distribution of performance period and payout frequency is roughly the same as those reported in a previous study.

For companies that pay quarterly and annually: Quarterly payments tend to be based on revenue metrics such as RevPAR; annual payments tend to be based on GOP or guest satisfaction metrics.

*The Performance Period and Incentive Payout Frequency are the same for each company in our sample.
Appendix: Plan component details
### Director of Sales Incentive Plan Summary (1/2)

<table>
<thead>
<tr>
<th>Sample</th>
<th>Performance Metrics¹</th>
<th>Max Payout (% of Base)</th>
<th>Payout Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>X X</td>
<td>25%</td>
<td>Annual</td>
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<tr>
<td>B</td>
<td>X X</td>
<td>35%</td>
<td>Annual &amp; Quarterly</td>
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<tr>
<td>C</td>
<td>X X</td>
<td>Uncapped</td>
<td>Quarterly</td>
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<tr>
<td>D</td>
<td>X</td>
<td>Uncapped</td>
<td>Annual &amp; Quarterly</td>
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<tr>
<td>E</td>
<td>X X</td>
<td>40%</td>
<td>Quarterly</td>
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<td>F</td>
<td>X X</td>
<td>25% Q &amp; 15% A</td>
<td>Annual &amp; Quarterly</td>
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<td>G</td>
<td>X GK</td>
<td>Uncapped</td>
<td>Annual &amp; Quarterly</td>
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<td>H</td>
<td>X X</td>
<td>12.5%</td>
<td>Quarterly</td>
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<td>I</td>
<td>X GK</td>
<td>30%</td>
<td>Quarterly</td>
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<tr>
<td>J</td>
<td>X GK</td>
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<td>Quarterly</td>
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<td>K</td>
<td>X</td>
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<td>Quarterly</td>
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<td>L</td>
<td>X X X</td>
<td>37%</td>
<td>Semi-Annual &amp; Quarterly</td>
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<td>Annual &amp; Quarterly</td>
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<td>S</td>
<td>X X</td>
<td>57%</td>
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<tr>
<td>Z</td>
<td>X X X</td>
<td>50%</td>
<td>Quarterly</td>
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</tbody>
</table>

¹ Performance metrics: “X” indicate category used in incentive plan and “GK” indicates gatekeeper required for incentives to be paid out.

² “Other” metrics include: sales activities, catering/banquet revenues, employee satisfaction scores, guest scores, physical state of hotel, etc.
## Director of Sales Incentive Plan Summary (2/2)

<table>
<thead>
<tr>
<th>Sample</th>
<th>Revenue Team</th>
<th>Revenue Indiv.</th>
<th>RevPAR</th>
<th>GOP</th>
<th>Revenue to Budget</th>
<th>Other(^2)</th>
<th>Max Payout (% of Base)</th>
<th>Payout Frequency</th>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>30%</td>
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<td>X</td>
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<td>Annual &amp; Quarterly</td>
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</tbody>
</table>

1) Performance metrics: “X” indicate category used in incentive plan and “GK” indicates gatekeeper required for incentives to be paid out.

2) “Other” metrics include: sales activities, catering/banquet revenues, employee satisfaction scores, guest scores, physical state of hotel, etc.
Sales Manager Incentive Plan Summary (1/2)

<table>
<thead>
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<th>Performance Metrics¹</th>
<th>Max Payout (% of Base)</th>
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¹ Performance metrics: "X" indicates the category used in the incentive plan and "GK" indicates a gatekeeper required for incentives to be paid out.  
² "Other" metrics include: sales activities, catering/banquet revenues, employee satisfaction scores, guest scores, physical state of hotel, etc.
## Sales Manager Incentive Plan Summary (2/2)

<table>
<thead>
<tr>
<th>Sample</th>
<th>Performance Metrics¹</th>
<th>Max Payout (% of Base)</th>
<th>Payout Frequency</th>
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</table>

¹) Performance metrics: “X” indicate category used in incentive plan and “GK” indicates gatekeeper required for incentives to be paid out.

²) “Other” metrics include: sales activities, catering/banquet revenues, employee satisfaction scores, guest scores, physical state of hotel, etc.
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- Nor1
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