



HSMÁI SPECIAL REPORT

Hotel Management Company Sales Incentive Plans

Produced in partnership with



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By Robert A. Gilbert, CHME, CHBA, President and CEO,
Hospitality Sales & Marketing Association International (HSMAI)

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.



ABOUT HSMAI

Hospitality Sales & Marketing Association International (HSMAI) is the hospitality industry's leading advocate for intelligent, sustainable hotel revenue growth. HSMAI provides hotel professionals and their partners with tools, insights, and expertise to fuel sales, inspire marketing, and optimize revenue through programs such as HSMAI's Revenue Optimization Conference, Digital Marketing Strategy Conference, Sales Leader Forum, and Adrian Awards. HSMAI offers organizational and individual membership, with more than 7,000 members in four global regions — the Americas, Asia Pacific, Europe, and the Middle East. — hsmai.org

ABOUT ZS

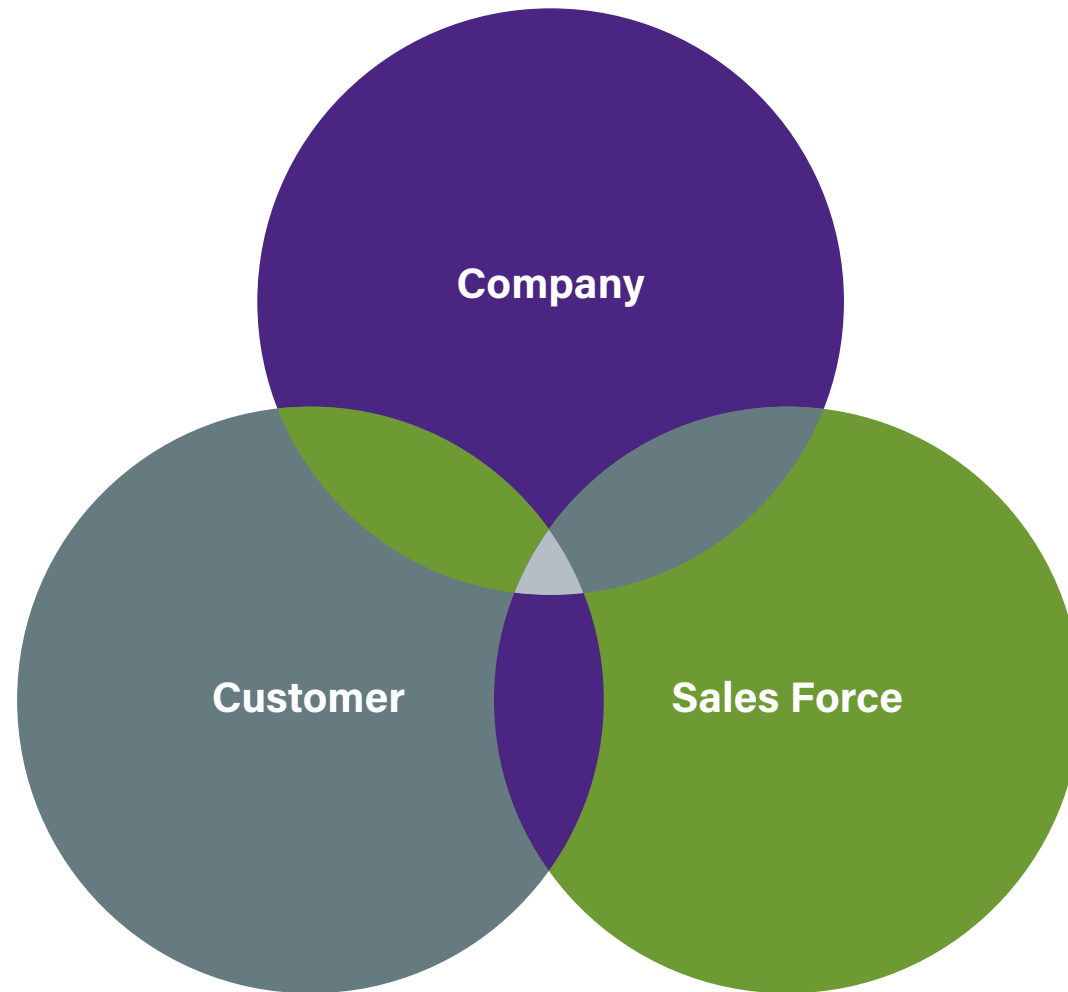
ZS is a professional services firm that works side by side with companies to help develop and deliver products that drive customer value and company results. — zs.com

WHY ARE INCENTIVES SO IMPORTANT?

Why are incentives so important?

Three entities are impacted by the incentive plan:

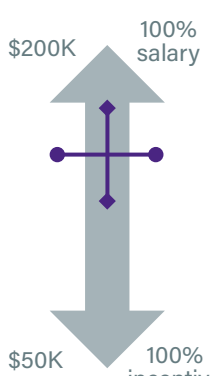
- Sales force drives the top-line
- Output is typically measurable
- Lack of supervision
- Need to acknowledge success





Framework for sales incentive plan design

We need to look at the entire sales compensation spectrum when thinking about a sales compensation program

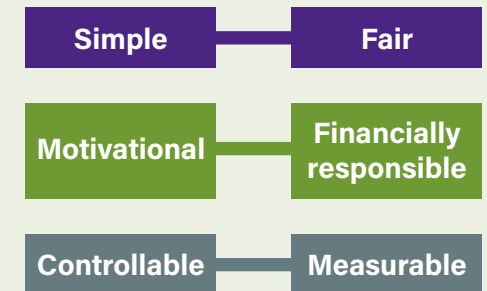
Compensation Guiding Principles						
Strategic Motivational Simple Fair Fiscally Responsible						
Eligibility	Pay Level & Mix	Plan Design			Plan Period	Additional Elements
		Metrics	Methods	Mechanics		
<p>What are the criteria for a role to receive sales compensation?</p> <ul style="list-style-type: none"> ■ Customer contact ■ Financial influence 	<p>What level of base and variable pay is appropriate?</p> 	<p>What should be the measuring metric for each of the identified components?</p> <ul style="list-style-type: none"> ■ \$ sales ■ Unit sales ■ Orders ■ Gross margin 	<p>What plan type to choose from?</p> <ul style="list-style-type: none"> ■ Commission ■ Goal based ■ Forced ranking ■ Matrix ■ MBOs ■ Combination 	<p>What will the payout curve look like?</p> <ul style="list-style-type: none"> ■ Threshold ■ Slopes ■ Accelerators ■ Kickers ■ Caps 	<p>How long is the plan period?</p> <p>What is the payout frequency?</p> <ul style="list-style-type: none"> ■ Monthly ■ Quarterly ■ Semi-annually ■ Annually 	<ul style="list-style-type: none"> ■ SPIFs/contests ■ Recognition program ■ Long-term incentives

Guiding Principles: A good incentive plan is strategic, motivational, fair, simple, and fiscally responsible



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

Answer: There are tensions between the guiding principles.



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

KEY TAKEAWAY

3

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

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

Commission Plan

**PAY
5% OF
SALES**

- New products
- Hunters
- Territory potential must be balanced

Relative Plan

Rank	Payout
Top 10%	\$40,000
Next 20%	\$20,000
Next 40%	\$10,000
Next 20%	\$5,000
Bottom 10%	\$0

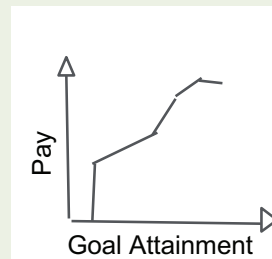
- Minimizes forecasting issues
- Can cause unhealthy competition
- Uncommon

Matrix Plan

	Share Growth		
Share	0-1.0%	1.1-2.0%	-----
0-20%	500	1000	
20-40%	1000	1500	
40-60%	1500	2000	
60-80%	2000	2500	
>80%	2500	3000	

- 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%

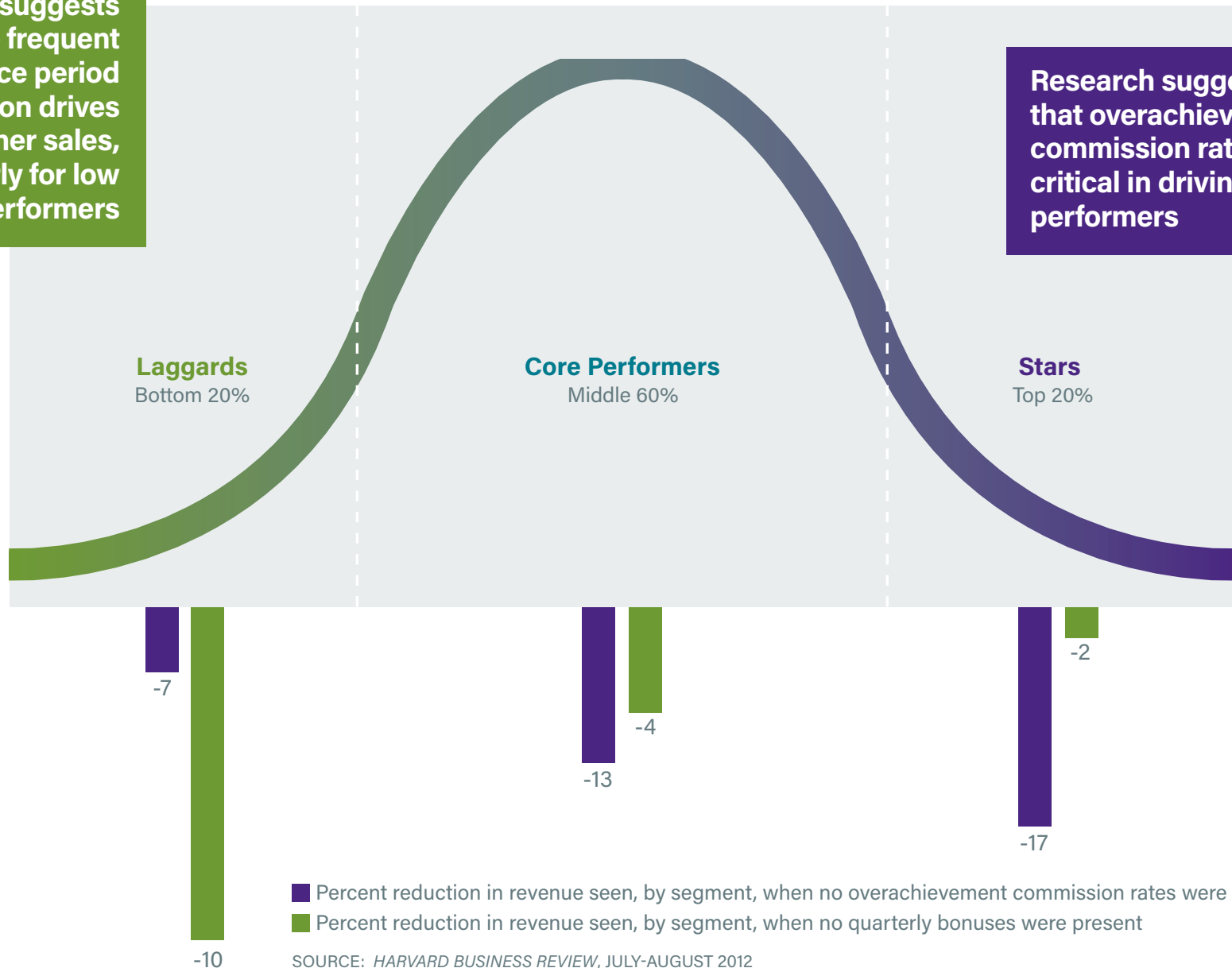
Total	100%

- Can be subjective
- Little pay differentiation
- Administrative burden
- May not require sales data

What does the research say about payouts?

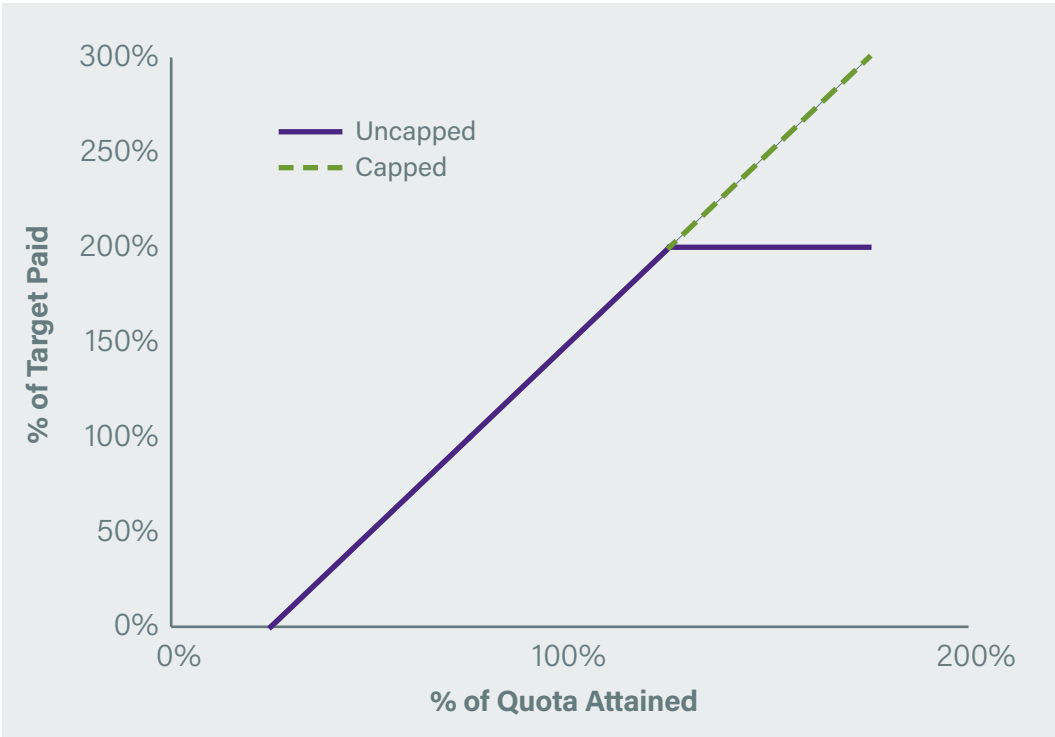
Research suggests more frequent performance period evaluation drives higher sales, particularly for low performers

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



SOURCE: HARVARD BUSINESS REVIEW, JULY-AUGUST 2012

Caps reduce the motivation of your top performers



RESEARCH SETTING
Data were collated from the sales organization of a large U.S. contact lens manufacturer

KEY TAKEAWAY

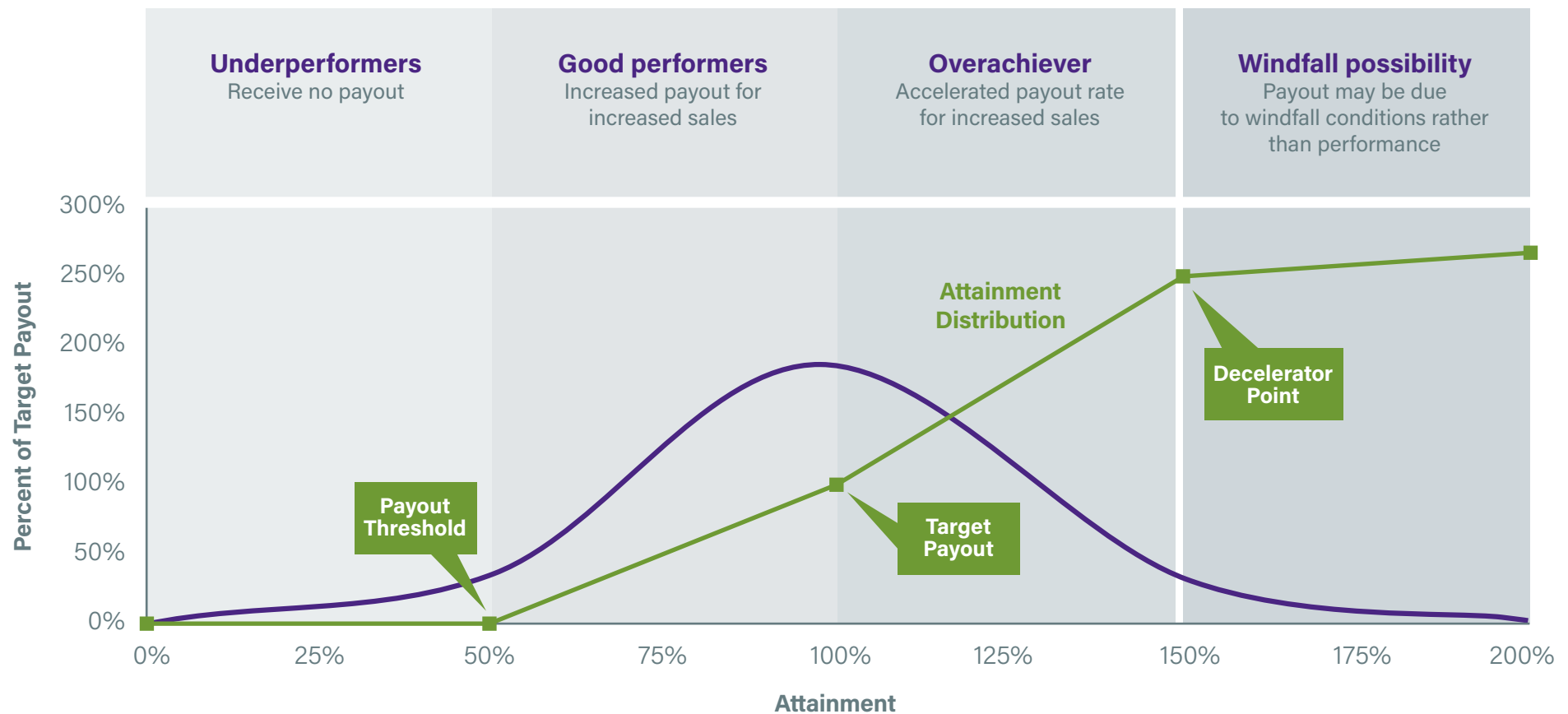
9%

Improvement in revenue after caps were removed from the plan

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

GUIDING PRINCIPLE	OBJECTIVE METRIC		REP BENCHMARK	MANAGER BENCHMARK
Motivating	Engagement rate	Percent receiving payout	90-100%	100%
	Meaningful engagement rate	Percent paid at least 75% of target \$ payout	60-80%	60-80%
Pays for performance; Fiscally responsible	Median % of target payout	Percent of target payout received at the median	100%	100%
	Average % of target payout	Percent of target payout received on average	100-110%	100-110%
	Excellence to target ratio	Top 10% \$ payout vs. target	200-300%	150-200%
	Bottom performer vs. target ratio	Bottom 10% payout vs. target	10-30%	30-50%

An optimal payout curve considers performance in four payout zones



Too many salespeople below threshold can result in:

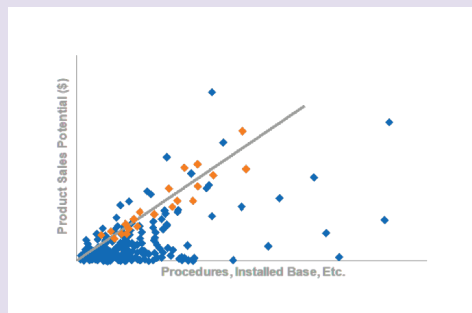
- Loss of motivation / morale
- Account managers holding back sales until next pay period
- Loss of confidence in sales management
- Note: A high threshold suggests very strong forecasting ability

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

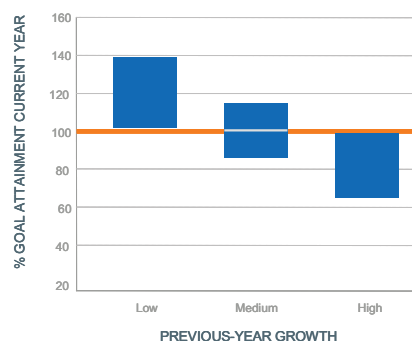
Based on our experience, effective quota-setting processes include a variety of common characteristics

Territory Opportunity



- 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

Goal Refinements									
Team 1, Product A Team 1, Product B Team 2, Product A Team 2, Product C Current Users: VP Logout									
Geography		Historical Sales		Q4 Goals		New Refinement			
ID	Name	Q3 Sales	Q3 Sales	Initial Goals	Refined Goals	Refinement	Reasons		
R1	Region 1	900,000	1,000,000	1,100,000	1,100,500	500	Positive Trend		
D1	District 1	450,000	500,000	550,000	550,250	250	Mgt. Case		
T1	Territory 1	90,000	100,000	110,000	110,070	70			
T2	Territory 2	180,000	200,000	220,000	220,140	140			
T3	Territory 3	180,000	200,000	220,000	220,140	140			
D2	District 2	225,000	250,000	275,000	275,125	125			
D3	District 3	225,000	250,000	275,000	275,125	125			
R2	Region 2	1,200,000	1,300,000	1,400,000	1,400,500	500	Negative Trend		
R3	Region 3	1,400,000	1,500,000	1,600,000	1,600,500	500			
R4	Region 4	1,200,000	1,300,000	1,400,000	1,400,500	500			

- 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



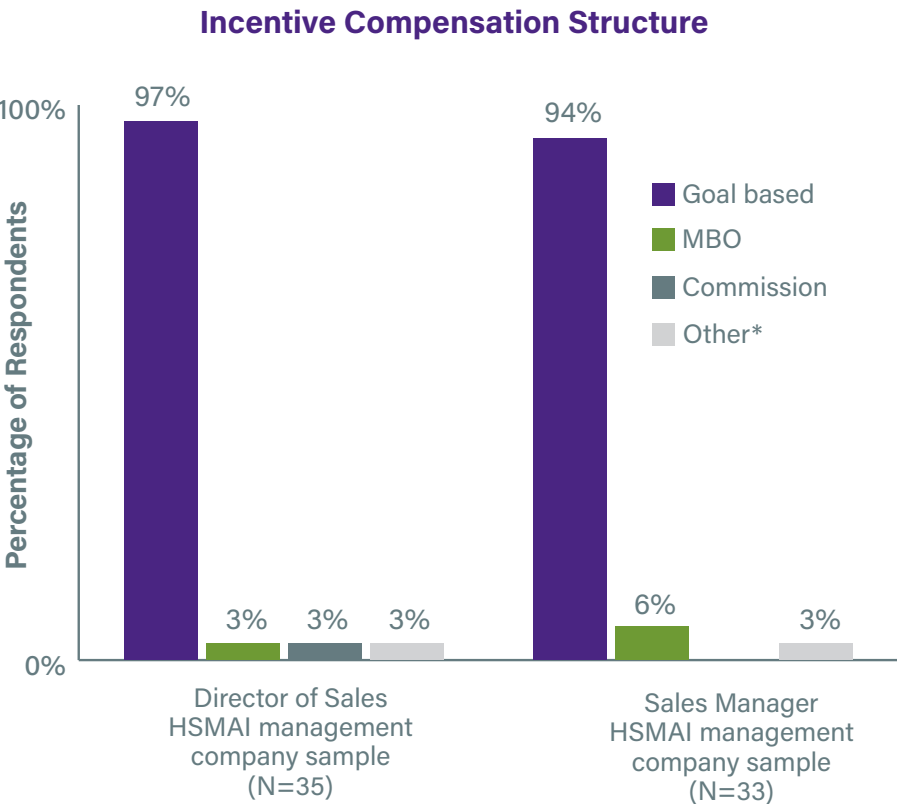
State of incentives in hotel management companies

OUR PARTICIPANTS

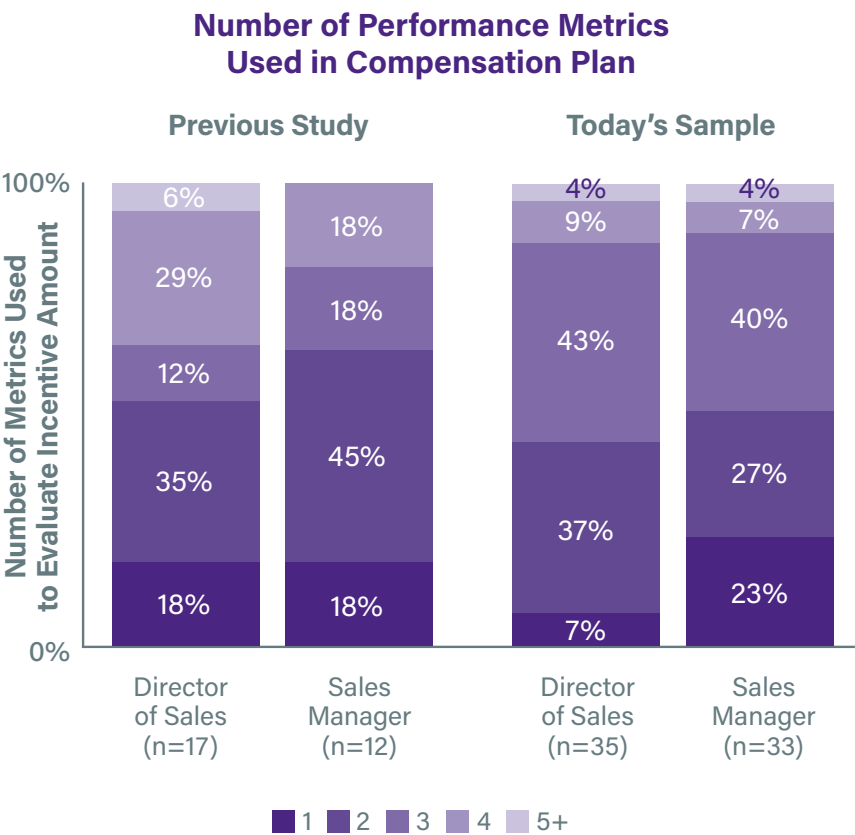
- AMResorts
- Atlific Hotels
- Atrium Hospitality
- Benchmark Global Hospitality
- Charlestowne Hotels
- Commonwealth Hotels
- Crescent Hotels and Resorts
- Donohoe Hospitality Services
- Dow Hotel Company
- Genuine Hospitality
- GF Management
- Growth Properties Hospitality Management
- HHM Hospitality
- 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

We collected incentive plans from 39 hotel management companies

Hotel management companies use goal-based plans as the dominant compensation structure



Hotel companies are simplifying their plans by carrying fewer metrics

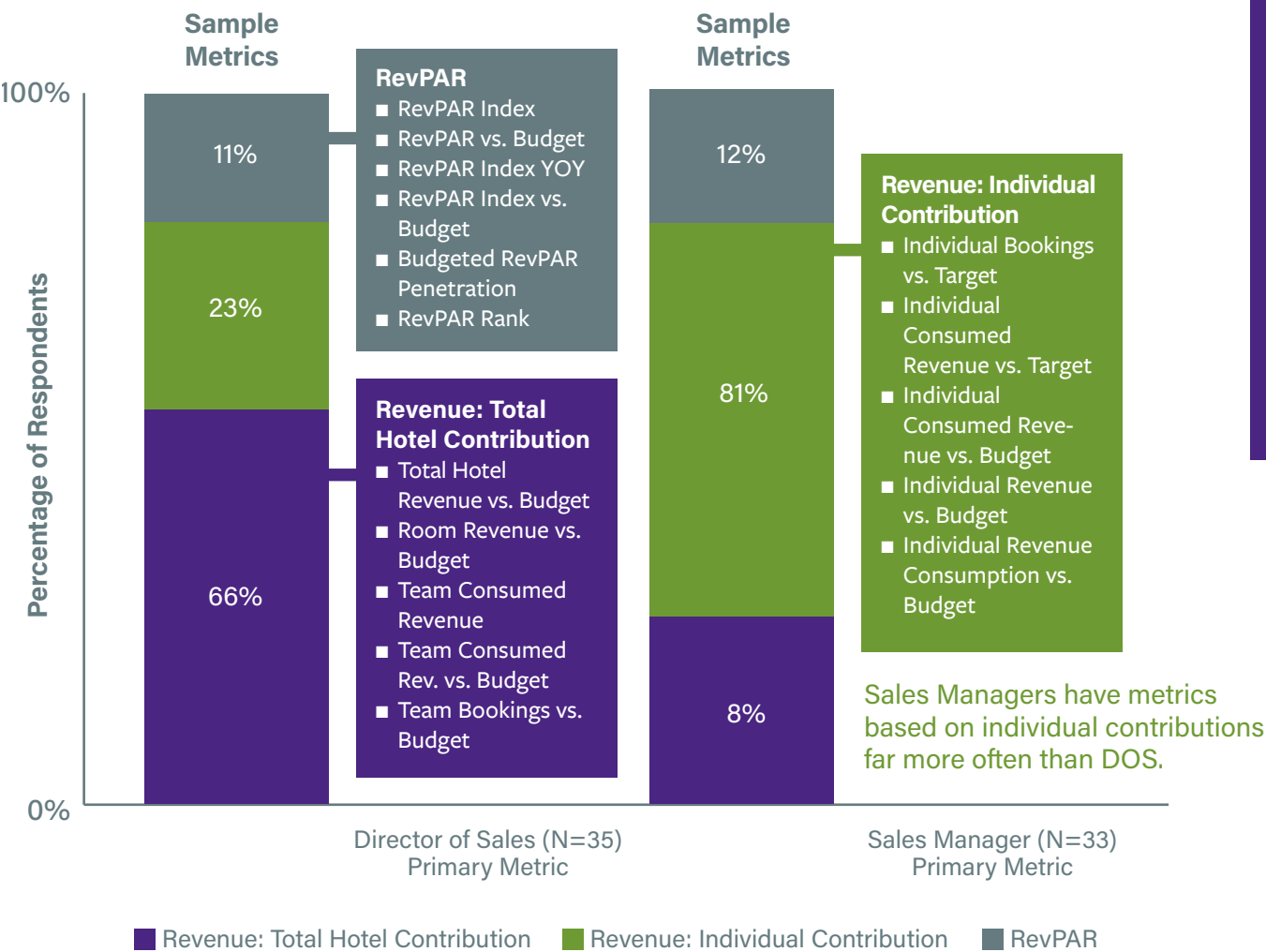


As compared to our previous study, the majority of companies build their incentive compensation plans using 3 or fewer metrics

Some "Other" responses include Market Share, House Profit, STR & Revenue Based, Overall Hotel Performance, GOP, Shop Evaluation, Customer Service Scores, and Communications.

Revenue is the primary metric for both DOS and Sales Managers

Primary* Performance Metric Used to Determine Incentive Compensation



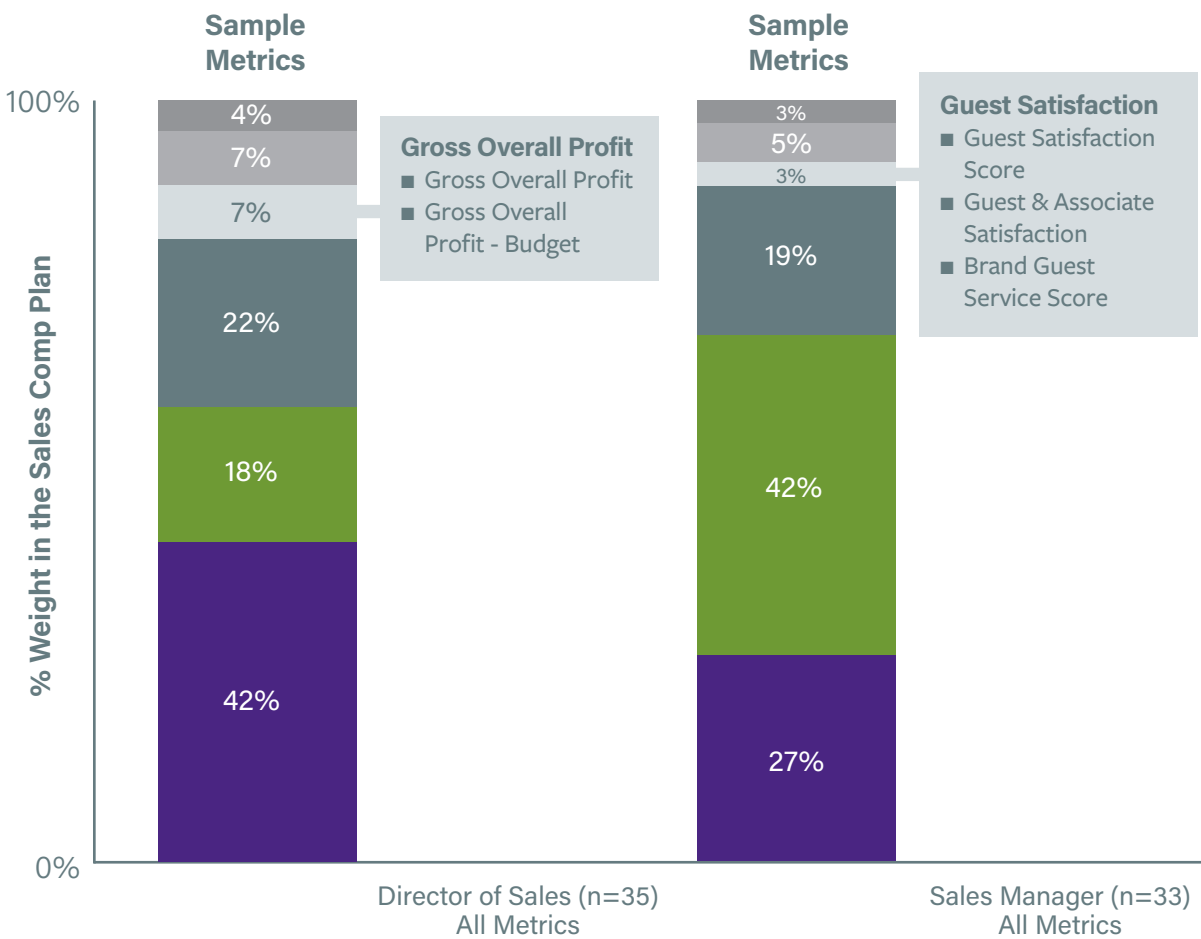
Management companies are mostly aligned with metrics: hotel/team revenue for DOS and individual revenue for managers, with differences tied to budget, targets, and consumption

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

All Performance Metrics Used to Determine Incentive Compensation

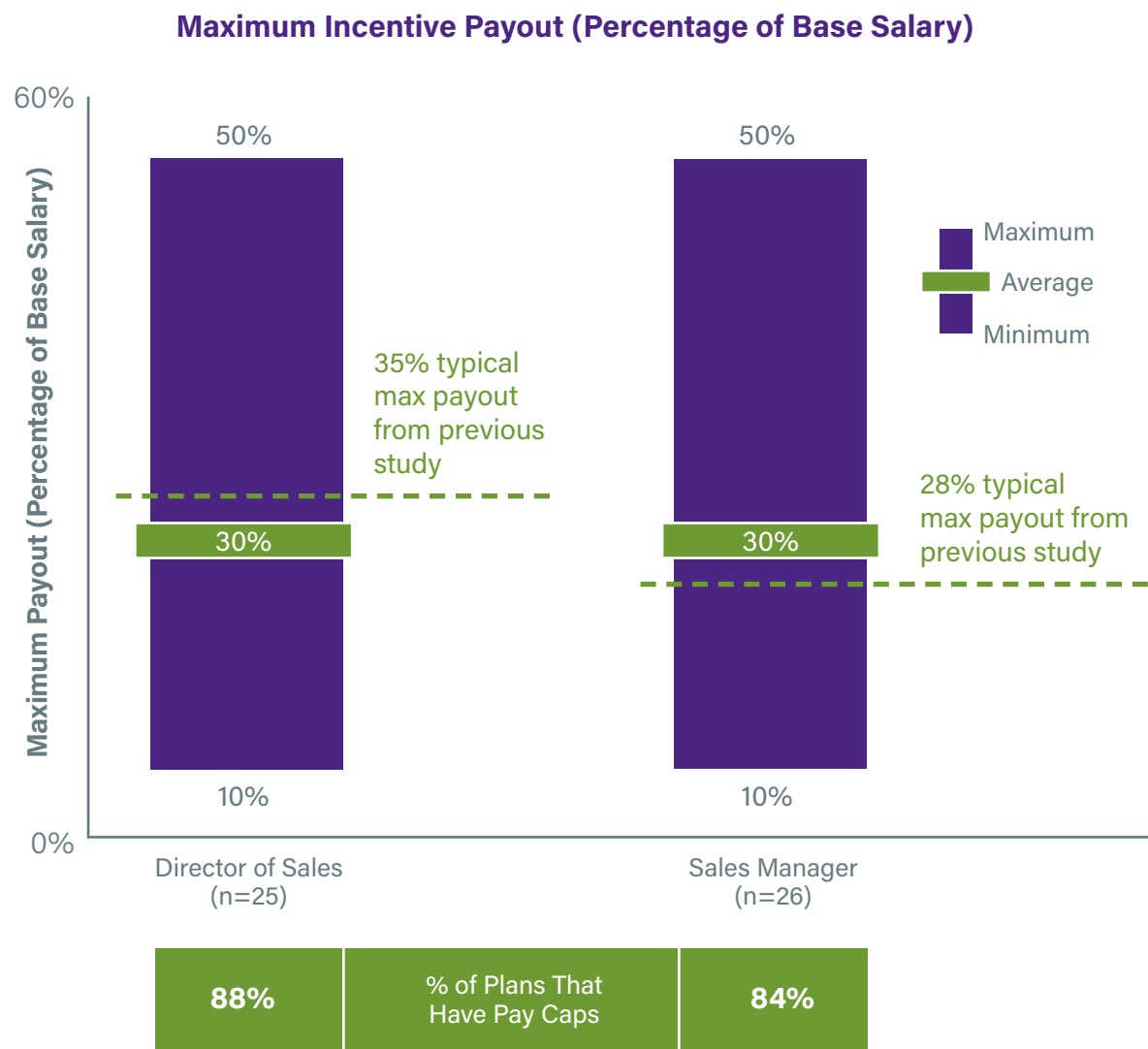


Usage of RevPAR as performance metric has remained constant across the companies as compared to the previous study

■ Revenue: Total Hotel Contribution ■ Revenue: Individual Contribution ■ RevPAR ■ GOP ■ Guest Satisfaction ■ Other

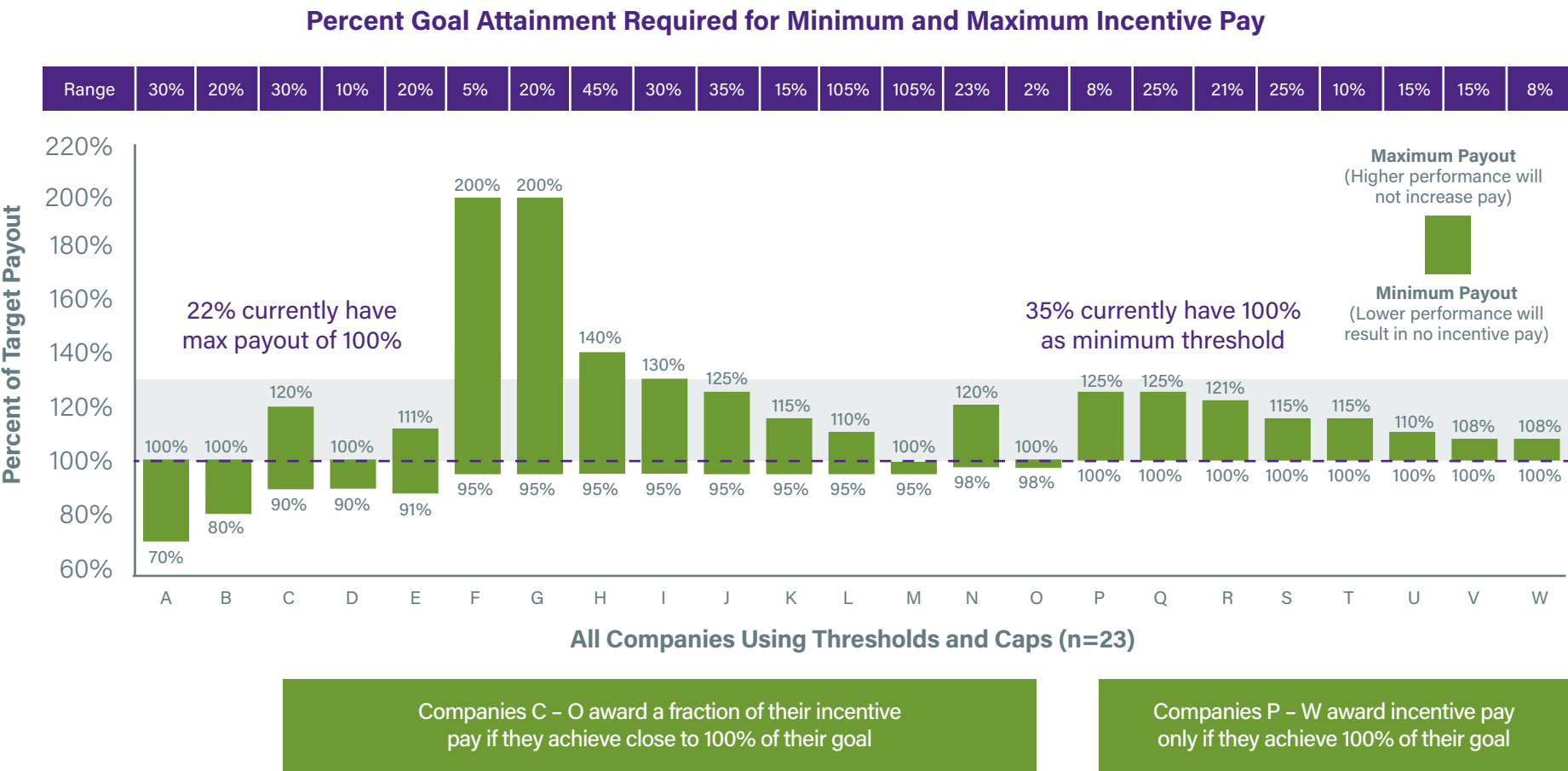
Sample Metrics are listed in order of popularity.

The majority of plans we collected were capped, and the max payouts for Sales Manager and DOS have converged at 30% of base



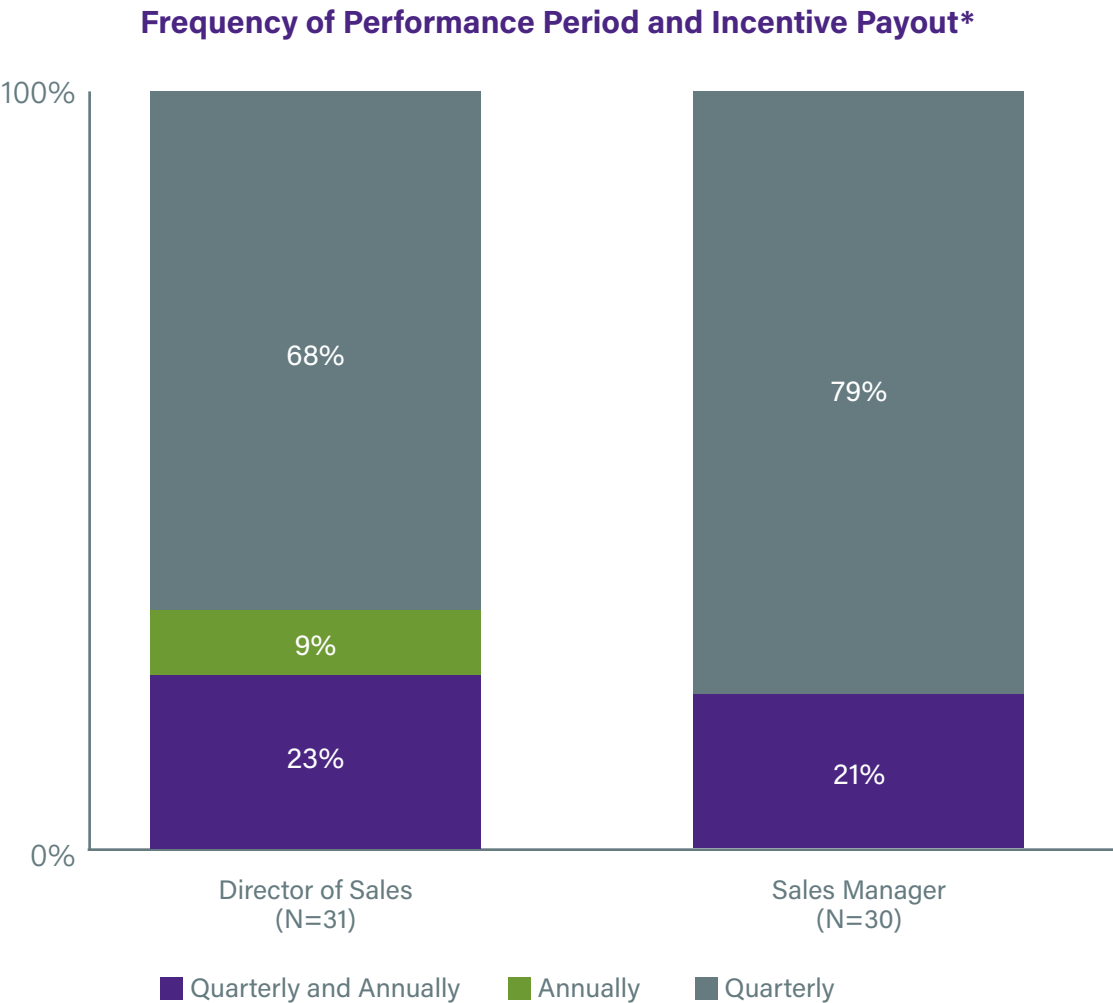
High performers for Sales Managers averaged 28% in a previous study, slightly lower than today's sample

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



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)

Sample	Performance Metrics ¹						Max Payout (% of Base)	Payout Frequency
	Revenue Team	Revenue Indiv.	RevPAR	GOP	Revenue to Budget	Other ²		
A					X	X	25%	Annual
B	X		X		X		35%	Annual & Quarterly
C	X	X			X		Uncapped	Quarterly
D	X						Uncapped	Annual & Quarterly
E	X		X		X		40%	Quarterly
F	X		X		X		25% Q & 15% A	Annual & Quarterly
G	X				GK	GK	Uncapped	Annual & Quarterly
H	X				X	X	12.5%	Quarterly
I			X	GK		X	30%	Quarterly
J	X			GK	X	X	Uncapped	Quarterly
K					X		Uncapped	Quarterly
L	X		X		X	X	Uncapped	Annual & Quarterly
M	X	X	X				37%	Semi-Annual & Quarterly
N	X			X	X	X	30%	Annual & Quarterly
O	X		X	GK	X	X	30%	Annual & Quarterly
P		X					Uncapped	Quarterly
Q	X	X			X	X	20%	Annual
R		X	X		X		Uncapped	Quarterly
S	X	X			X	X	57%	Annual & Quarterly
T			X		X	X	15%	Quarterly
U			X			X	35%	Quarterly
V	X	X			X	X	20%	Quarterly
W		X			X	X	25%	Quarterly
X		X	X		X		30%	Annual & Quarterly
Y	X		X			X	\$3,000	Quarterly
Z	X	X	X			X	50%	Quarterly

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)

Sample	Performance Metrics ¹						Max Payout (% of Base)	Payout Frequency
	Revenue Team	Revenue Indiv.	RevPAR	GOP	Revenue to Budget	Other ²		
AA	X	X	X	X	X	X	30%	Annual
AB	X	X	GK				\$17,500	Quarterly
AC			X		X	X	17.5%	Annual & Quarterly
AD		X	X		X		35%	Annual
AE	X					X	24%	Annual
AF	X		X			X	35%	Annual & Quarterly
AG		X			GK		Uncapped	Annual & Quarterly
AH	GK		X		X		50%	Quarterly
AI			X		X	X	25%	Annual & Quarterly

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)

Sample	Performance Metrics ¹						Max Payout (% of Base)	Payout Frequency
	Revenue Team	Revenue Indiv.	RevPAR	GOP	Revenue to Budget	Other ²		
A	X	X	X		X	X	32%	Annual & Quarterly
B		X				X	Uncapped	Quarterly
C		X					Uncapped	Annual & Quarterly
D		X			X		35%	Quarterly
E	X	X	X			X	Uncapped	Quarterly
F	X	X			GK	GK	Uncapped	Quarterly
G	X					X	25%	Quarterly
H	X	X		GK			Uncapped	Quarterly
I					X GK		Uncapped	Annual & Quarterly
J	X	X				X	Uncapped	Annual & Quarterly
K	X	X	X				19%	Semi-Annual & Quarterly
L		X GK			X		30%	Quarterly
M		X GK					Uncapped	Annual & Quarterly
N		X					Uncapped	Quarterly
O	X	X				X	20%	Annual
P	X	X	X		X		Uncapped	Quarterly
Q		X			X		31%	Annual and Quarterly
R			X		X	X	15%	Quarterly
S			X			X	7%	Quarterly
T			X		X	X	20%	Quarterly
U	X	X			X	X	20%	Quarterly
V		X			X	X	50%	Annual & Quarterly
W		X			X	X	25%	Quarterly
X		X	X				30%	Annual & Quarterly
Y		X				X	25%	Quarterly
Z	X	X	GK				\$17,500	Quarterly

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 (2/2)

Sample	Performance Metrics ¹						Max Payout (% of Base)	Payout Frequency
	Revenue Team	Revenue Indiv.	RevPAR	GOP	Revenue to Budget	Other ²		
AA			X		X	X	17.5%	Annual & Quarterly
AB	X	X	X		GK	X	25%	Annual & Quarterly
AC		X	X		X GK	X	30%	Annual & Quarterly
AD		X					\$35,000	Annual & Quarterly
AE		X			GK		Uncapped	Annual & Quarterly
AF		X	X		GK		40%	Quarterly
AG			X		X		20%	Annual & Quarterly

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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