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Build pay plan to motivate employees, help company

Denver Business Journal - by Garry Duncan

Is your sales compensation plan inspiring or lacking motivation?

Sales compensation plans draw scrutiny from all levels in an organization. One of the most common reasons sales professionals give for changing employers is injustice or perceived injustice in commission and compensation plans.

There are four common mistakes in compensating salespeople. They are assuming money is the only motivation, creating a plan incongruent with company goals, lack of clarity in the plan and changing plans without adequate notice.

Let's examine those four areas.

- Don't assume that money is the only motivation for salespeople.

Of course, good salespeople have money motivation, but they also need recognition, appreciation and respect. Surveys validate that lack of appreciation is the most common reason employees make career changes. Sales managers who only throw money at their team are going to encounter high turnover and the need to constantly recruit and train.

- Avoid creating compensation plans that are incongruent with company goals.

Let's say sellers are to bring in new customers. If the pay plan is on profitability and commissions are on margin instead of new accounts, sellers will focus on selling the high-profit customers, not on the number of new accounts.

Avoid this problem by considering your primary revenue streams. Does the majority of your business come from ongoing sales to existing customers, new products to existing customers, or from selling and developing new accounts?

Of course, you want all three types of revenue, but which is the priority?

Ongoing sales from existing customers fit well with a higher base or salary and a lower commission structure.

Sales to new customers get the most attention but are harder sales to produce, usually more

expensive to acquire and the least profitable at first, so this goal fits well with straight commission.

Every company wants to increase profits, grow revenue and keep and add customers. Deciding which one is the priority around which to build a compensation plan is the hard question.

- Lack of clarity and misunderstanding of the pay plan creates problems. If the seller can't calculate the amount of his/her commission, it's too complicated. Deteriorating trust in the company and management team is a major risk to companies with complicated commission plans.

Managers who tend to overstate realistic earnings for the first year will experience sour attitudes and feeble efforts when reality sets in with newly hired representatives.

Confusion on initial draws and base draws against future earnings continue to be a source of dissatisfaction, especially on when and how these are calculated and applied. Having a clear written policy with examples reduces these misunderstandings.

- Changing plans without adequate notice is another sure method to demoralize any sales team -- unless, of course, the payout is going to increase.

When changes are necessary, allocate adequate time for the sales staff to close current opportunities under the existing plan. From 60 to 120 days is common, but base it upon the average sales cycle of sales already in the funnel.

There are pros and cons to all three of the most common plans.

Straight salary is appropriate when the emphasis is on consistency, serving and retaining existing customers, account management, or for developing new territories or product lines before converting to a commission plan.

The obvious drawback is the lack of incentive with straight salary. It can create a narrow gap between top performers and low performers, and may allow weak performers to fly under the radar. Salaried sellers are tempted to sell what's easy, and not necessarily what the company wants them to sell.

The opposite of salary is straight commission, and it's the norm for many industries such as insurance and real estate. Straight commission is easy to set up and is associated with low selling costs.

The downside is that it can limit attracting top talent, especially those with established incomes and lifestyles, because commission usually means some amount of wrapup time.

Don't forget that straight commission reduces loyalty to your company and provides little incentive for customer service. In addition, straight commission makes it more difficult to re-assign customers or re-align territories because sellers won't want to give up their sources of income.

You can pay commission rates as a flat rate on all sales, on profit margin, differently on

different products, differently for new and existing customers, or at different rates for different volume levels.

Remember that if your sales cycle is longer and your industry commonly pays only commission, you may need to pay incentives or correlate draws to productive activities and behaviors in the beginning, to ensure new hires fill their sales funnels.

A combination of base plus commission is the most common pay plan. The base needs to be high enough so the representative isn't struggling to live, but low enough to provide incentive to hunt. A combination brings the best of both worlds and reduces the overall disadvantages of any one program.

Surveys indicate that salary usually accounts for 40 percent to 80 percent of the total compensation. Review your industry averages for specific numbers.

Whatever incentive plan you use, keep it simple, match company goals and make changes with advance notice.

Garry Duncan is principal of Denver-based Leadership Connections, a sales training company. Reach him at 303-462-1277 or garry@leadershipconnections.com.

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