Remunerating Salespeople

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The number one reason for a salespersons' resignation is still "my boss", and an incorrectly structured pay package may inadvertently be chasing away your best existing and prospective sales staff. The saying "Pay people peanuts, and you get monkeys" is not that far off the mark, but it must be qualified; you don't want your bottom performers earning too much or you will be stuck with them forever, but you do want your top performers to be empowered to pilot their own pay cheques - or you will lose them to the competition. This requires careful structuring of their remuneration package.

Sales people have different *abilities*, and *drive*; thus your worst vs. star salespeople are motivated by different facets of the compensation plan, which is why a multi-faceted approach is required to motivate everyone. In addition to this, there should also be no caps on commission (Steenburgh & Ahearne, 2012; Chung, 2015). Challenging conventional wisdom, new studies reveal that a high basic (90%) and a team performance bonus (10%), is a superior package to traditional high commission structures (Pink, 2012). Be careful, one needs to think carefully about your particular contextual situation.

"A critical factor determining a rising star's engagement is the sense that she is being recognised—primarily through pay." (Martin & Schmidt, 2010:57. How to Keep Your Top Talent.)

Evaluating Salespeople
Because we're dealing with volatile conditions and sometimes hot-blooded individuals, compensating sales folk is just as much an art as it is a science. Norton & Kaplan say, "If you can't measure it, you can't manage it", or in other words, what gets measured gets done. So to remunerate sales folk, paycheques need to be measured against different quotas: sales volumes, profit, activities and other subjective data – whichever best suit the trading environment. The below tables (ref. Table 1 & 2) will give you a good idea of most traditional benchmarks to measure against; for instance, where a salesperson has control over the price and type of product sold, a common quota to track is margin (GP%) - this is a salesperson's sales minus the cost of goods sold (COGS), divided by their sales revenue, expressed as a percentage. Don't forget that "sales is *vanity*, but profit is *sanity*". These key performance indicators (KPIs) should be planned in advance, weighted and evaluated constantly – some daily, others weekly, monthly and annually.

Evaluating Salespeople using Quotas			(subjective *)
The three classic Quotas			Other Quotas
Output Based	Input Based	Profit Based	Qualitative
Sales volume (lagging KPIs)	Activities that are "leading" KPIs	GP% gained per product line	*Attitude
Sales units	Prospects called on	GP% average across all lines	*Teamwork
New Accounts opened	Presentations done	GP% increase	*Selling time vs. Non-selling time
Lost accounts	Agreed to tasks	Net Profit	*Appearance
Market share	Demos done	ROS (net profit/ sales)	*Selling Skills
Size of order	Calls logged		Product Knowledge (Test)
Number of orders	Expense Account control		Customer Relationships (CSI survey)

Table 1: Different Types of Sales Metrics

Metrics for Evaluating Salespeople's Performance
Classic Metrics for Salespeople

Lead Indicators (input)	Lag Indicators (output)
Calls made (logged): Phone, Zoom	Conversion rate (i.e. 30% wins)
Appointments made (Zoom)	Sales Volume vs. Quota ($)
Campaigns (sale/marketing)	Sales Unit vs. Quota
Quotes made/presented (e-mailed)	GP%
Demos made (Zoom, Face-to-Face)	Market Share %
Expenses	ROI%, ROE%, ROA%,
Customer Satisfaction Scores (%)	Lost accounts
Product Knowledge (and selling skills)	New accounts opened
Selling time vs. Non-selling time	Your ideas.

Table 2: Leading vs. Lagging Sales Metrics

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A survey in the Wall Street Journal (6 March 1990) found that 59% of managers said that their remuneration plans did not work, and 49% complained that they over-payed under performers. This is probably because many managers just don't know

how to structure packages. Another chief issue is the laziness of both the sales manger and accounts division to calculate what incentives should be paid, which is probably the reason so few sales teams are actually on monthly or quarterly incentives.

Top Ten Remuneration Tips

1. A remuneration plan that worked last year may be dismally ineffective this year – so keep tweaking to match the shifting trading environment. What are the new strategic marketing objectives? Which products need the most attention? Have service levels dropped? Are we losing market share? Who's attacking us and which competitors should we hurt? What product range needs to be pushed for strategic reasons?
2. Effective evaluation equates to *meaningful remuneration*, which leads to improved respect for the organisation, and thus the improved long-term morale of all work associates.
3. The lazy novice sets the same commission for all products. Choose which performance measure best suits your firm, and then align commission with what needs to be done. To weight what requires the most attention, create a tiered or sliding scale commission structure. For instance a new product with a high GP% should be pushed hard. However a product with a low GP% but that will strategically hurt the competition, may also be heavily weighted.
4. If you want to play with a salesperson's pay structure, don't switchover to the new package immediately – do a 3 to 6-month 'dry-run' so they can start giving the new KPIs their full attention, then compare what they would earn on the current vs. proposed pay structures. This prepares them psychologically, which with today's pressures, will improve their wellbeing on every sales call.
5. Before switching over, get everyone's commitment to the objectives and the new evaluation methods. For instance, find that one magical quota (KPI) and weight it heaviest.
6. Have specific job titles and tiered grades enabling staff to differentiate between their basic salaries and incentive structures. This also helps career path planning. There are over ten different types of job descriptions for sales people, so don't think a Key Account Manager (KAM), who does more servicing than selling, should be on the same structure as a Missionary Sales Consultant. Also consider weighting 20 percent of a KAMs annual performance bonus to a customer satisfaction survey. Structure the sales mangers package so that s/he is a good coach and leader.
7. Where possible, offer a list of fringe benefits but allow them to custom build their packages. A single person may prefer a smaller basic but higher commission. Don't forget that paying sales people, which includes fringe benefits and expense accounts, is a cost - therefore ensure that it's *self-funding*. (Don't forget the sales managers salary package too.)
8. To enable salespeople to pilot their own course, remuneration must be meaningful and measurable by line-of-sight: at any given moment a salesperson should be able to calculate the bulk of their pay cheque.
9. Consider IBM's five pronged approach which will make salespeople alert to getting things done: a basic, monthly commission, quarterly commission for

different KPIs, annual performance bonus on different KPIs, and a recognition awards function where a large percentage of the sales force is rewarded with prizes across various categories.

10. Develop a culture that the sales force really is "the sharp tip of the business writing instrument", and that they often will earn more than senior managers.

There are pros and cons to almost all pay structures – that's why it is such an art and a science. A *basic-only* package is definitely out though - but whatever you do, keep tweaking to attract, reward and retain your best performers.

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