

Making Changes To Sales Compensation Plans

A significant percentage of the calls I'm getting these days concern a desire to make changes in sales compensation plans. The calls have been about equally divided between two situations: "My salesperson isn't bringing in enough new business, and I think it's because there's nothing in his/her compensation plan to encourage new business development" or "My salesperson is making too much money."

Never Too Much

Let's start today's discussion with a clear understanding...there is no such thing as a salesperson who is making too much money! At least, that's true if his/her compensation plan was designed intelligently in the first place. What defines an intelligent compensation plan? Simply this...the salesperson only makes big money when he/she makes big money for you!

Once that criteria is met, you should be thrilled to give a big paycheck to a printing salesperson—the bigger the better! Unfortunately, most of the calls I'm getting are a result of poorly designed compensation plans. And when that's the case, it's certainly possible for a salesperson to be making too much money. It's also very important to do something about it. But be careful, because monkeying around with a salesperson's compensation plan is without question the most dangerous activity on the sales management side of any business.

Different Problems

Creating an incentive to develop new customers is the lesser of these two compensation problems. You can do it with variable commission rates, or with bonuses paid for each new customer acquired. My own preference is a variable commission structure. Let's say that you're currently paying a 10% commission on all sales volume. A new compensation strategy might be to pay 8% on sales to current customers, and 12% on sales to new customers.

A salesperson who is making too much money for the volume he/she is bringing in is a different problem. The secret to a successful adjustment is to provide the opportunity for a salesperson to make at least as much money with a new compensation plan as under the "old" plan, as long as he/she accomplishes a clear and reasonable set of goals. That may be to bring in some new business, to increase sales volume with current customers, to sell at higher gross margins, or a combination of all three.

Clear and reasonable goals are important for two reasons. First, you have to be able to work out the arithmetic to make sure that the adjustment will actually correct your problem. Second, you have to be able to sell the adjustment to your salesperson. And that's the tricky part!

"Jack," you might say, *"we have to talk about an adjustment to your compensation plan. Because frankly, what you're receiving from this company is out of proportion to what you're bringing in. We need you to bring in more business, (or to sell at higher margins, or whatever your specific situation may require). If you do that, your new compensation plan will quickly get you right back to the level you're earning at now, and then higher. If you don't, though, you're quite simply going to make less money."*

If your current compensation plan isn't too far out of whack, it's not tremendously difficult to work out the arithmetic for a fair and functional adjustment. What exactly does that mean? Well, if you're paying a salesperson twice what you feel you should be paying for what you're getting, you have a problem that nothing short of drastic action is going to address. But if you feel you're paying something more like 25% "too much"—or anything less than that—the arithmetic can usually be made to work out with a reasonable sales increase requirement and a combination of salary, commission, and bonus opportunities.

What Is Too Much?

The last thing I'd like to ask you to consider today is the process by which you decide how much is too much. To me, this goes directly to the issue of what you pay a salesperson for in the first place.

My opinion is that you pay a salesperson to convince people to buy from your company...not to sell orders, but to sell your company to potential customers. That's the hardest part of the selling challenge, but once it's accomplished, the orders start to flow.

If you feel that you're paying a salesperson too much because orders come in now without any apparent effort on his/her part, I think you're making a mistake. My feeling is that the money you pay for bringing in the first orders doesn't nearly compensate the salesperson for tremendous accomplishment of creating a customer. My definition of "making big money for you" is tied to the "lifetime value" of a customer.