Is a Great Commission Plan Possible?

Much has been written, discussed, and argued over compensation plans. Most debate centers around **What** we pay associates. However, **How** we pay our associates can have just as large an impact on job performance and satisfaction. This in turn greatly impacts client satisfaction. There are many components to quality compensation programs with commissions getting the most spotlight due to the potential that is created in achieving company goals. I have had many opportunities to develop compensation programs for disciplines ranging from accounting, counter, management, data input, and inside & outside sales. Rather than eat the whole elephant in one bite, I wanted to touch on sales personnel exclusively.

Recently I was contacted by a company in the fastener industry to review their commission plan. I obliged and in this particular case it took all of about 4 minutes! The commission plan was a bonus program paid out annually to the inside and outside sales force. It was a flat percentage of a sales growth number. The percentages were different for the inside and outside group. The manager stated that they were not achieving the results that they had initially anticipated with this plan. To add insult to injury this manager was struggling to keep employees from leaving to work for competitors or big box stores. This phone call was not an anomaly – this happens with some level of frequency.

What does a good commission plan look like? Here are some basic tenants that may help in reviewing plans currently in place or in developing new ones.

A great commission plan is clearly identified. We've all heard the horror stories of when commission plans go bad. Employees who do not clearly understand how draw, commission, expenses, account receivables, or gross profit fit into the program are destined for dissatisfaction which can cause major issues. Any commission plan worth its salt is defined by specific terms. These terms determine if the plan is exclusively financial or if it involves Management Objectives. Exclusive Financial plans are usually the easiest to administer but suffer breakdown on building a team or gaining commitment on non-financial objectives. For example if we have an outside sales person on a plan that pays X percent of Gross Profit dollars on their assigned accounts, that individual may not assist in training other outside sales personnel.

Exclusive Management Objective plans tend to build a team atmosphere but suffer breakdown in accountability and sometimes results. These plans tend to be built around the "overall" number for the company. When utilizing Management Objectives make sure they are clearly defined – the basics of quality management are useful in this area – Define, Measure, Critique, Adjust. Asking someone to provide good customer service is very difficult to measure, however measuring order fill rate is a defined number.

Hybrid plans are becoming more numerous. These programs take some of the best qualities from each type of plan. These Hybrid plans have a clearly identified Management Objective tied to a specific pay amount in addition to a financial measurement.

When determining the structure of the plan some other key areas to give your consideration are: Plan has cap or maximum payout, geographic boundaries, market types and product categories. Each of these areas needs to be defined in order to avoid confusion and achieve desired results.

Finally, identifying the plan means determining what portion of the overall compensation is at risk. Some of the most popular plans for outside sales representatives are based around 30% - 50% at-risk.

A great commission plan is easily understandable. In concert with the plan being identified is its understandability. How long does it take to compute for the employee and the management? Does it require a rocket scientist (no slander directed at the aforementioned scientist) to decipher and administer the program? The best programs are ones that are clearly understood by the sales representative and the manger – this means no disagreements on terms, conditions or pay amount. Plans that are accompanied by 30 pages of instructions with many caveats don't create the level of excitement or performance that companies intend. Consider this question – can a sales representative explain the plan to a new employee concisely and accurately? Can management describe the program without fumbling over their words?

The commission basis should not only be understood but be something that the sales representative can impact. If we are paying on gross profit – what exactly is gross profit? Take time to make sure that our associates understand clearly the terms we are measuring. Do we have actual cost, or loaded costs? What about special orders – how does freight and expediting play in the plan? Is Account Receivables a component of the program and if so what happens to bad debt? And when is debt considered bad? Is the data that we are using accurate? Nothing can ruin the trust of our people as quickly as them thinking the numbers are "rigged". Test the numbers prior to any new programs or program changes, then test the numbers again – and finally test the numbers! Do cycle counts if tied to inventory, do invoices checks if tied to revenue, check credit memos issued over the past year for the accounts in question. This can aid tremendously in providing a more accurate plan out of the gate.

One of the complaints that I hear often is "Our plan was great for 3 employees but now I have 12 and it isn't as effective – How can I modify it now?" Consider making your program scalable. We would not purchase a computer program without asking about scalability and portability. Can it grow with our needs? Does it have the opportunity to be modified to meet our needs? Our compensation programs need to be the same. Consider adopting a culture that begins to look long term. Ask yourself a couple of questions – Will the basic plan in place for 4 employees meet the needs of 25? Will the plan in place be portable from 10 million to 30 million?

A great commission plan is tied to a Win-Win. While this point may seem obvious, don't take for granted that your new plan will have a win-win effect. Imagine spending time developing and implementing a program to have it not achieve the intended results. Consider the following issue that I've witnessed. A new program was developed over a 6-month period and beta tested. The program began in January – by June the evidence was clear. Sales compensation had increased 30% and profits were flat from the previous period. The program was abandoned and obviously the sales personnel and management were quite disappointed. The sales group had a difficult time trusting management following this debacle and management was slow to offer new compensation programs after being snake bit.

In order for a plan to be a win-win, companies need to consider what the intended win for both sides will be. Plans that are intended to spur growth are not good fits for individuals that are charged with maintaining accounts. Growth plans tend to pay commission on accounts for a more limited period of time – thereby forcing continuing growth. Maintenance plans tend to pay commission like an annuity – as long as the client continues to purchase, a given percentage is paid from a financial measurement. The plan type can be dictated by the personnel or by the market.

Match the pay to the intended result. If you desire growth of new accounts the plan should be developed to drive our representatives to find and secure new business. If maintenance is the primary goal the period can be longer than monthly – especially when there are small variations monthly.

Additionally, in the win-win portion consider leaving room for Bogeys and SPIFFS. These programs can help drive new product initiatives and campaigns.

Don't let the plan manage your people. How you pay your sales personnel is not a replacement for managing. Several times I hear – "I don't have to manage our sales personnel because if they aren't doing the job the program is self regulating." Don't leave the job of leading, coaching, mentoring, and developing to a compensation plan.

Compensation plans don't have to be complex to be effective. They do need to be carefully thought out programs that drive performance and reward efforts. Remember, business isn't for the faint of heart – it is hard but rewarding work! Hard work pays off!