Sales Force Motivation and Compensation

Assoc. prof. Anca-Mihaela TEAU PhD
Artifex" University of Bucharest

Abstract

This article illustrate how sales managers can use sales incentives and compensations to motivate their sales team. To motivate sales people effectively, sales managers must have a thorough understanding of human needs and the concepts of motivation. They must also learn how to use the various forms of sales incentives and compensation to meet their salespeople's needs.

Key words and expressions: *commission plans, incentive, sales force motivation, sales compensation*

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Nowadays many companies have began to revise their sales incentive and compensation plans to reflect changes in sales strategies and tactics. For instance, the growth of international marketing requires that sales incentive and compensation be changed to reflect cultural, political and economic differences in other countries. Sales practices and operations are likely to be different and as a result management will be challenged to find the best way to motivate global sales personnel. The variety of sales commission plans make compensating individuals in a sales more complicated than with employees in others parts of a company. A salesperson's compensation often includes combinations of salary, commission, bonus, sales contests, and nonfinancial rewards and recognition programs.

To illustrate this problems, I structured the present article in three parts, first of them approaches the sales motivation, in the second part are presented some considerations to help develop a compensation plan that contributes to a high performance sales team and finally in the last part there are described the basic components of most sales commission plans.

1. Sales force motivation

One of the most difficult problem a sales manager faces is the motivation of the sales force. Motivation is the process that produces goal-directed behavior in an individual. It helps to initiate desired behavior in an individual and direct it toward the attainment of organizational goals. Motivation consists of three elements - need, drive and goal. Satisfaction of the need in the individual cuts off the drive in him to work toward satisfaction of the need. The effectiveness of the sales force plays a crucial role in the success and growth of an organization. In order to attain the goals of the organization, it is essential that the sales force is highly motivated.

Motivation in the sales function refers to the amount of effort a salesperson is willing to expend in the selling job. While some salespersons are self-motivated, there are others who need to be motivated to perform. Sales managers can motivate their team by following any of the theories of motivation, namely, Maslow's hierarchy of needs theory, Herzberg's two-factor theory, goal-setting theory, expectancy theory, and job design theories. Maslow's hierarchy of needs theory classifies the needs of an individual into five categories - physiological, safety or security, social, self-esteem and self-actualization needs. Physiological needs are the lowest order needs while self-actualization needs are the highest order needs. Further, as lower order needs get satisfied, an individual strives to satisfy higher order needs. Herzberg's two-factor theory states that the job environment of an individual is characterized by two types of factors - hygiene factors and motivational factors**.**

The goal-setting theory presumes that people have specific needs and aspirations to fulfill for which they set certain goals for themselves. They then go about achieving these goals by taking purposeful action. Further, setting higher goals produces higher output. The expectancy theory states that an individual is motivated by the perceived consequences of his or her actions. According to this theory, motivation is a function of expectation, valence and instrumentality. Job design theories assume that all individuals have the same needs, and that ensuring certain job characteristics can satisfy these needs.

A salesperson's motivation plays a crucial role in influencing his performance and thereby his productivity. Salespersons having a high level of motivation tend to perform well in the selling job and have high productivity. On the other hand, salespersons who lack motivation tend to be poor performers and fail to achieve their sales targets. Such salespersons hence tend to have low productivity. Creating desire is part skill and technique, and part behaviour and style. In modern selling and business, trust and relationship (the 'you' factor) are increasingly significant, as natural competitive development inexorably squeezes and reduces the opportunities for clear product advantage and uniqueness.[1]

Sales managers can take various measures to motivate the sales force and boost its productivity. These measures can be in the form of sales quotas, sales contests, well- designed compensation plans and reward systems, etc. The sales compensation plan has a greater impact on the company's results than any other single document. It impacts the behavior of the sales organization in a direct fashion. Salespeople are generally paid differently than all other functions within the company. Their performance is easily quantified and measured. As a result, their compensation is generally comprised of a base salary, and a quota or commission.

2. Sales Commission Plans

The best sales compensation programs are ones that are fair, motivating and will achieve the goals of the company. Setting unrealistic sales goals, or

[1] Anca Mihaela Teau, Cristina Protopopescu (2011), *AIDA, Hierarchy of Effects*, Revista Română de Statistică, trim. III/2011, pp., ISSN 1018-046x

putting unrealistic ceilings on earnings power will create discord in the ranks of the top salespeople. Sales commission plans can be rewarding and motivating if done correctly. It can have a negative impact on motivation resulting lower sales when structured poorly. There is no one size fits all process for developing a compensation plan. There are considerations to help develop a compensation plan that contributes to a high performance sales team.

- Sales commission plans should not be developed in a vacuum. Make sure the compensation plan and budget are developed in conjunction with the Company's overall planning process. It is a good idea to involve the sales team when creating the compensation plan. They can contribute ideas and practical feedback borne from experience.
- Develop the compensation plan to focus on both tactical sales objectives and the company's strategic objectives and goals. Consider organizational goals including profit, growth, market share, product line revenue, and business development when creating the plan.
- Make certain the plan does not direct sales behavior away from organization objectives. Salespeople always maximize a sales plan to their personal benefit and reward. The Company job is to make sure the plan benefits everyone.
- Create metrics and measurable criteria for the tactical and strategic objectives mentioned above. Just looking at gross sales may cause other critical issues like customer satisfaction, customer retention, new business development, competitive sales, profitability, and individual product line sales to suffer.
- Keep your plan simple yet complete. It has to achieve the company objectives, but not be so complicated the salesperson cannot accurately determine how they are being rewarded. You do not want your sales people spending the first few days of each month arguing about compensation.
- Relationship building and consultative selling with major clients requires long-term engagements and often necessitates a fixed salary component to the plan.
- Design the compensation plan so it discourages turnover among the top sales people. Paying a little extra to keep top performers happy is far cheaper than the turnover caused by a poor compensation plan.
- Reward your sales team based on their contribution and worth, not just level of activity. Many top salespeople work smarter and more efficiently. Both performing tasks and achieving results are important, and the plan needs to be crafted to create the right balance.
- Create the sales commission plans so it differentiates between top, average, and inadequate performers. An effective plan will motivate top performers to continue performing high levels, average performers to improve their performance and poor performers to hopefully consider other lines of work. A plan without the right differentiation runs the risk of retaining poor performers and causing top performers to leave.

- Perform benchmarking. If in improving sales target is to become the best in everything they do, sure benchmarking possible to know if he has reached the goal or when it will be achieved. This is the only instrument that teaches us how "good" can become" best". Well done, benchmarking will tell you directly what is now "the best" and how to achieve this level of excellence[2].
- Try to create plans that do not create direct competition between salespeople. The best plans do not have the entire sales team competing against each other for a fixed pot of compensation dollars. Reward salespeople for concentrating on customers, corporate objectives, and out selling your competition.
- Sales commission plans should be evolutionary, not revolutionary. Don't change the sales plan too radically or quickly. Completely revamping a compensation plan may appear arbitrary and confusing to the sales team. Involve the salespeople for ideas and feedback, and take it slow. There are times when a sales plan has to be changed quickly due to new products, mergers and acquisitions, or new market penetration. In this case, develop the new plan completely, and implement it swiftly so salespeople can immediately begin maximizing their rewards.
- A properly designed compensation plan allows above average performers to find a comfortable level of income without penalty. Remember that individuals are motivated differently by the types of sales jobs and their individual and personal agendas.
- The right sales commission plans have a positive impact on customers and the marketplace. A poor plan has the opposite effect.
- Use the sales contests judiciously. They can often motivate sales for short period of time, but they can also violate characteristics of a carefully crafted compensation plan, and make it hard for you to get your team back on track.

3.Types of commission plans

There are many forms of commission plans. A commission plan can include many types of compensation and can include multiple formulas. Here are the basic components of most sales commission plans.

a)Salary Only

A straight salary compensation plan for salespeople is used for one of several reasons. It is first used when a new sales rep is brought into a company. It is also used when a new territory is opened or a person needs time to come up to speed and perform at the proper level. A salaried compensation for a period of time gives a new person that opportunity. Another reason to use salary only is when management is trying to motivate a salesperson to achieve key success factors that are not revenue or sales volume related. Salary only compensation is also used when is difficult to determine an individual's impact on the total selling effort.

[2] Gresoi Sorin Gabriel – *"Management and quality management"*, Pro Universitaria Publishing House, 2011, pg.140

Sometimes in team selling, or in global and multinational sales accounts, customer care and relationship building is the key focus. One way of guaranteeing proper account involvement is to compensate a sales rep using salary only.

The advantages of salary only compensation are management can ask the sales people to spend their time completing tasks and activities that are important to the company's initiatives and objectives. Salary only plans are used when salespeople are expected to perform customer service, market research, customer problem solving, education, or other promotions. Also, straight salary plans can be used effectively where extensive high-tech integration and design services are required to get a product approved and sold. Another advantage to salary only plans is they are easy to compute and administer. They also give management more flexibility in positioning their sales force in a way that best meets corporate goals. Another added bonus for management is cost of sales stays fairly constant even with increasing sales volume. This results in cost per unit sold dropping and profitability rising. The disadvantage is when sales go down, salaries remained constant for a time, and they represent an ever-increasing percentage of sales. The other key consideration of a salary only commission plan is that financial rewards are not tied to a specific job performance. This causes performance evaluation to be more subjective. Since salaries are fixed, it does not provide an incentive for improving the rep's performance. Over long run, this type of compensation plan tends to attract security oriented sales people rather than the true high-performance hunters and business development reps.

b)Straight Commission

Having a compensation plan based entirely on commissions is an excellent way to motivate highly aggressive selling behavior. Straight commission is the right choice if the goal is to turn sales reps loose in a market or territory to maximize sales volume. Straight commission assumes that the non-selling tasks have been minimized in their importance at the expense of sales volume. Another consideration of a straight commission plan is companies have a harder time controlling sales force activities.

Straight commission sales commission plans can be very motivational. Individuals who are motivated to improve their financial compensation are motivated to improve their sales production. However there is a point where further incremental effort and activity increases become less attractive to each person, and at that point sales productivity plateaus. Sale commission plans compose only of commission are simple and have a perceived sense of fairness. As long as each rep's territory is properly defined with approximately equal potential, compensation equals productivity. A straight commission plan makes it easy to compute and administer compensation. Compensation costs move up and down with sales volume which makes this attractive to companies that may be trying to save working capital. The company doesn't need to worry about paying higher wages and salaries unless sales volumes increase.

There are some disadvantages to straight commission plans. There is less control over sales reps, and less control over directing other corporate objectives. It may be difficult to get reps to think about relationship building activities that do not lead to short-term sales when every sales rep is trying to maximize sales. Developing new accounts takes more effort than getting business from existing accounts. As a result, straight commission plans often encourage milking existing customers rather than developing new business. Getting market data, feedback, and analysis from your sales team may also be problematic with this type of plan. Many sales people dislike straight commission plans because earnings are unstable and unpredictable. When business conditions are poor, turnover rates are likely to be high. Some companies try to compensate this with a draw advanced to the salesperson against future commissions. Draws need to be paid at a future date from commissions earned. Often though, the salesperson may fail to earn enough commissions to repay the draw or they may quit or be fired before the draw is repaid. In those cases, the company has to absorb the loss.

c)Combination Sales Commission Plans

Combination sales commission plans offer both a base salary plus an incentive based on production. These pay plans are popular with many companies because they have many advantages while avoiding many of the limitations of the other plans. The salesperson gets a stable salary that smoothes out the highs and lows. Management gets the advantage of having more ability to direct and reward their salespeople to perform tasks and activities not directly related to short-term revenue. The incentive portion of the plan motivates a salesperson to increase sales revenue and profitability. The incentive program can be structured in a tiered format to incentivize top sales reps to achieve on an open-ended basis. All revenues a sales rep brings in above their quota, is very profitable business for a company. The company gains additional revenue and profit, but the fixed expenses for the wage and benefits for the sales rep does not increase.

There are aspects of this plan that can vary. Sometimes incentives are left open-ended and sometimes they are capped. Occasionally an extremely large windfall deal is won by a sales rep that throws the incentives out of balance. Another consideration is defining exactly when a sales rep is credited with a completed sale and is due commission payments. The ratio of the base to incentive is something each company needs to determine. When a sales rep's activities are mostly related to short-term sales, the incentive portion of the pay is usually higher. When a sales rep is asked to do more relationship building and activities that don't bring in short-term revenue, the base salary is usually adjusted upwards. Increase the incentive portion of the plan when selling the product is difficult, and the salesperson is key to the sales success. The incentive portion should be reduced when the salespeople are largely order takers.

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