Creating a Sales Compensation Plan for Contract Training

By Julia King Tamang, LERN Senior Consultant

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Creating a Sales Compensation Plan for Contract Training

LERN clients in contract training often raise the question, "Should I be paying commissions on top of base salary and benefits?" The short answer is, "It depends." At the time of this writing, very few units are paying out commissions and many who have proposed it have met with resistance from central administration. And yet many contract training professionals feel that the addition of a sales compensation plan that adds commission to a base salary and benefits would help grow their unit. LERN would like to help our contract-training members understand this issue more fully.

First of all, if you're asking central administration to let you create and administer a compensation plan, it will help your odds of success if you understand the rationale for offering one and what a sales compensation plan might look like. It will also be helpful if your president understands and supports the role of contract training in the institution, so be prepared to make these cases. And one thing is for sure — you definitely won't be allowed to offer your sales people commission if you don't ask!

The soundest rationale for offering a sales compensation plan is that you'll most likely attract a more experienced, more capable candidate for your sales team. This rationale makes most sense in places where there is a clearly defined case that there is business to be earned for a skilled sales person. For example, a small, rural unit with no industry nearby, no online product streams and not much history of selling contract training probably will produce as much as it's capable of without compensation beyond salary and benefits. On the other hand, a unit that has determined sound evidence of a sizeable, unmet market potential may well benefit from attracting a skilled sales person, and if there is competition for those salespeople, then a robust compensation package may help attract them.

Writing a sales compensation plan

These three methods — repeat business, new clients and referrals — will help you keep a steadily growing client base. Map out your effort in each area and get a plan. Review your plan each quarter and track your progress.

You'll want the plan to communicate several things, including:

Your unit's sales strategy
The unit's sales strategy, what the business case is, and what the contract training unit is trying to achieve for the next year, and in the long run. It might also include a statement of how these goals interface with the institution's goals.

Performance measures
Spell out benchmarks and performance measures to help guide the sales force in terms of their focus. Make sure the benchmarks relate to LERN's Contract Training best practices for finances.

Payout formula
This component makes clear to your sales staff what's in it for them. The payout formula lays out how and when they will be paid in terms of base pay, benefits and commission for sales.

Governance
In this section, you'll outline how you will resolve questions or conflicts over sales compensation not covered in the plan.

The compensation plan won't be able to cover everything. Issues are going to be raised along the way — especially in the beginning — whether it's what constitutes a new account or what happens when several different people claim credit for a sale.

Since you intend that your compensation strategy is a "pay for performance" plan, you'll need to clearly identify how "performance" is defined in your unit. It's possible to create a sales plan that incentivizes the wrong sales behaviors, so take care.

For example, a strong plan will incentivize not just dollar volume of sales, but will focus on sales that have a higher operating margin. In most cases, it will also have a mechanism for incenting sales of several larger contracts, not just smaller ones.

After identifying your sales goals and spelling out the vision of success for your sales staff, you need to figure out how your unit will compensate the sales force. The potential compensation, theoretically speaking, could range from straight salaries to the far-end of commissions and other potential perks.

Should you consider a commission-only compensation plan?

In most cases, tempting as it is, it's likely to attract the wrong people and it does not send a message of valuing the sales team member during the normal course of ups-and-downs in a unit's lifetime. A base salary guarantees that your sales staff are compensated even during an economic downturn, or any time when a lack of sales is due to factors outside the salesperson's or the unit's control. This is especially key while you are designing and stabilizing your contract training unit. Adding variable pay such as commission motivates salespeople to work harder to drum up new accounts and return business. LERN would like you to achieve 50 percent repeat business, minimum, and about 50 percent new accounts, including referrals.

Most units at this time still opt for salary and benefits only. This is largely a matter of institutional and industry culture. Currently, in private-for-profit businesses, the vast majority opt for a middle ground that includes compensation beyond salary. In 2008, WorldatWork surveyed its members in conjunction with the National Association of Sales Professionals (NASP) and found that a mix between base salary and variable pay were the most prevalent forms of sales compensation. Eighteen

percent of respondents used a mix of 80 percent salary and 20 percent commission. Sixteen percent used a 70 percent salary, 30 percent commission ration. And 14 percent reported a mix of 60 percent salary and 40 percent commission. Factors to consider when creating a sales compensation plan:

The precedent for a commission-based plan on your campus

If your campus has any history with offering commission to any employees, this is a good time for you to learn more about that position, since it will provide a case of precedent. For example, if your institution has a radio or TV broadcasting station, it's likely that there is an advertising salesperson who is making commission. Human Resources will know about this.

The current role of sales people on your staff

Is your unit in the mode of "order taking"? Do your sales come in, unsolicited, from calls generated by your website or catalog? Or are your sales driven by salesperson contact, or do you want them to be soon? The degree to which a salesperson influences a customer's decision to buy a product or service should be part of your list in deciding whether to award commission. In your unit, you'll want to look and see how many people are actually key to selling the product. The more the actual decision to buy rests on the salesperson, the more suitable a commission-based program is.

The behavior you want to reward

If you're emphasizing new account sales, you may also consider being more aggressive in your pay mix and basing more on commission. If you're trying to encourage a sales person to go after brand new accounts, you want them out in the community, opening doors, generating high numbers of leads and following up on them. At the same time, you may want to use a more conservative pay mix for growing sales to STAR accounts. Whatever you pay incentives for is where your sales staff will focus the most time and energy — so be sure you put the incentives in the right place.

How to set up a sales compensation plan: The first step to implementing a sales compensation plan will be to do your homework and to propose the plan and its rationale to Central Administration.

The next and more difficult task is putting it into practice. At this point in academic culture, the first hurdle you're likely to encounter is resistance from other staff. People like programmers and instructors will want to know why they are not also given commission. Even higher-level administrators might have this inquiry. One rebuttal is to ask them if they'd really like their paycheck to depend upon performance. Pay for performance inside an educational institution is an extreme cultural shift, so expect resistance — it's natural, in this case. I do not at this time know of a single institution that offers pay for performance for any staff other than sales inside a Contract Training unit.

Factors in implementing a plan

The factors involved in implementing your sales compensation plan include people, timing, analysis of results, and your ability as an organization to make changes if sales goals are not being met.

Timing of the rollout
Target the time frame when you want to put this plan into practice. The ideal time is at the beginning of the first quarter of a new fiscal year. This will require adding the rollout to your One-Year Business Plan, so you have time to adequately prepare. Emphasize a focus on both the unit goals and the sales goals (and how they relate) from the beginning.

It takes a team to sell
Take the time with staff to review the LERN team-selling model and make sure salespeople and operations staff members are aligned. Confirm that the contract training unit director is ready to be out in the community opening doors for

sales staff. If you have an inside sales person, be sure they have a plan for the year. If you can, get an operations person set to service the signed contracts.

Set an annual evaluation period
At the end of the year, take time to review the plan with sales staff and the contract training department director. Does the plan need to be adjusted? Do this review each year. A unit new to commissions may even want to review it at the six-month mark.

Business goals when the economy is moving into an upturn are different than when the economy is going through tough times and the institution itself will experience changes that may affect sales performance — amplifying the need for monitoring.

Measuring successful selling performance
One critical element of a sales compensation scheme is to measure success of your sales force and whether they are meeting business targets. In order to do so, you need to set effective sales goals and performance objectives and keep a running tally of who is meeting those objectives and who is not.

Sales goals should be clearly defined and achievable, but they also need to be challenging enough to motivate sales reps to work hard to achieve them. To determine effective sales goals you'll have to answer some questions. What are the metrics that best reflect sales performance in our unit? What are the various dynamics that impact a sales rep's ability to achieve these goals? Rely on LERN's Contract Training performance benchmarks as a basis.

The resulting scheme should be simple enough to implement. No one wants to — or has the time to — be bogged down in complex calculations on each sale. But keeping it simple can be challenging. For example, you might like to say that the plan will compensate two sales people in different territories with a shared goal of 10 percent annual growth in number of

accounts. But that goal will only act as a legitimate incentive if both sales people work in territories with similar potential. So while the plan should be simple, it cannot always be simplistic.

Communication to the sales staff about performance metrics is also key. Publish performance scorecards of sales staff regularly and have regular meetings to discuss them. This will help keep the sales team on track and will provide motivation, inspiration and information on how to move forward.

Should you cap sales compensation?

This is a question of interest to many contract training unit directors and institution presidents. The argument against capping sales compensation is that when a sales rep reaches their compensation cap, their motivation to continue working hard will dwindle. But in our profession, since compensations by commission are so new, it might be that a cap helps you get the idea past central administration into implementation. This is another reason the plan structure should be set for review annually.

Mitigating risk and other considerations

There are a few other things to consider. We recommend paying on a 'cash-in' basis. That is, the sales person gets the commission when you are paid for the contract. And, consider adding a clause that if the salesperson leaves, you will not pay commission on jobs in the pipeline, no matter how big they are.

Remember, your sales person is selling training and other business performance solutions. It's not like selling widgets. They need some experience in true consultative selling and needs assessments, and it doesn't hurt if they have some experience with training or education.

Finally, be sure you're hiring the right salesperson. You want an entrepreneurial spirit who is in it for the long haul. Their ability to build relationships is key. You don't want someone who is going to go out and only sell the "Rolodex" of past contacts for the commission and then leave.

Conclusion

LERN predicts more and more contract training units will shift to commissions. When deciding on whether to implement commissions consider the above suggestions and answer the following five questions:

1. **Will you be paying a base salary and will benefits be included?**

2. **What will the commission structure be?** For example each quarter the salesperson has a goal of $150,000 and gets X percent for sales up to $150,000 and then X+ percent for sales after meeting $150,000. Also will there be other sales guidelines, such as contract sales meeting $X operating margin?

3. **How will the commissions be managed?** For example, will commissions be paid upon payment from the client? Will the salesperson receive commissions for opportunities in the pipeline if they leave the contract training unit?

4. **Will there be any other incentives?** If sales goals are met will the salesperson be given an increased territory?

5. **Will sales commission be linked to other employee policies, such as attendance, behavior, and so on?**

Paying commissions on sales is leading edge practice for today's contract training unit — but it's not for everyone. Do your homework and talk to colleagues who are experimenting with this. When you do venture out, keep track of what you're learning and adjust accordingly. LERN will continue to dialogue with our clients on this important topic with our best-practice clients and report to you on new insights and learning. We will continue to hold the view, as we do now, that a "best practice" is not one that a majority of people are doing — it's one that is bringing top-of-the industry results.

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