

Sales Commission Plan Dos & Don'ts

Is it time to revise or implement your sales commission program?

Consider the following:

Start by determining the general structure of the program by considering overall business, sales growth and gross margin goals.

Do: Align the program with the key drivers of the business. If Product A is the highest margin product, place a higher percentage commission on that product. Likewise, if the goal is to grow sales of Product C, consider assigning this product a higher commission percentage.

Don't: Stick with an outdated, antiquated program that is out of alignment with key business goals.

Determine how often to calculate and pay commissions earned under the plan.

Do: Make payments frequently; ideally monthly. Provide regular updates and calculations to the sales team so they know exactly where they stand.

Don't: Devise a program that waits until the end of the year to calculate and pay commissions or fails to provide regular performance reports.

Set base salaries and target commission amounts for each member of the sales team.

Do: Make the commission amount a significant, meaningful component of the sales person's overall earnings. A good rule of thumb is that the commission program ought to pro-

vide a minimum of 20% additional compensation to the sales person (above and beyond base), and enable them to earn a total commission equal to or greater than their total base salary in the event of a grand-slam home run year.

Don't: Make the amount sales people can earn so small relative to their total compensation that it doesn't provide adequate motivation.

Determine the performance measures on which to base the commission calculations.

Do: Make the program simple and easy for the sales person to understand. In short, a commission program should be straight forward enough that the sales person knows exactly how what they do every day ties to their commission. Consider a program with no more than three variables (i.e. X percent commission for sales of Product A plus Y percent for Product B plus Z percent for Product C).

Don't: Come up with a model that perfectly aligns compensation and company business goals but does so in a fashion so complicated that nobody can understand it.

Finalize the commission model.

Do: Leave the structure of the program alone once it is implemented unless a change becomes absolutely necessary.

Don't: Succumb to the temptation to make regular changes to the program. First, the more frequently the program is changed the more likely the sales team will become confused by it. Second, experience shows that the sales team will initially view any change to the program as a negative (until one of them proves



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they can make more money under the new program). Thus, frequent changes to the program tend to have short-term adverse effects on morale and revenue.

In the life of every commission program there comes a time when a judgment call has to be made. Does this sale qualify for a commission in a higher or lower commission percentage? Perhaps the net margin on that sale wasn't quite what we would like.

Do: Give the sales person the benefit of the doubt. If it's a close call, pay the higher amount or pay the commission rather than holding it back.

Don't: Decrease the commission payment as a way to "punish" the sales person (unless the issue is so egregious that there's no alternative). Doing so may make you feel better but erodes the motivation created by the program. You win the battle and lose the war.

At some point, a sales person will do exactly what you want them to do—perform so well that they earn a ton of money under the program.

Do: Congratulate them, celebrate their success and encourage them to do it again next year.

Don't: Compare their paycheck to yours, conclude they made too much money and change the commission program to make sure it never happens again. Sound ridiculous? I've seen it.

A properly designed commission program can provide significant benefit; motivating the sales team to exhibit the appropriate behavior and enabling the company to reach its revenue and net income goals. Take some time to design and operate yours the right way. ■

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