

BEST PRACTICES FOR SALES PLANS

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Sales Plans come in all shapes and sizes, however the four traditional approaches to sales compensation that most businesses have used with varying degrees of success are:

The "straight salary" plan that doesn't pay commissions promotes attention to the customer and a degree of sales rep loyalty, as long as the salary is competitive. However, it neglects those reps who thrive on competition and individual achievement. Often, the most successful approach to using the straight salary plan is to combine it with an effective bonus program based upon corporate profits.

"Salary plus commission" is another "common compensation strategy that offers sales reps a guaranteed base salary and commission. Generally, businesses offer relatively high base salaries only to seasoned reps who they feel can hit the ground running and quickly sell enough to earn their keep. Commission percentages will vary based on a number of factors including gross profit, cost of sales, length of sales cycle and the complexity of the sale.

Similar to salary plus commission is **"salary plus draw."** This plan advances a predetermined amount of commission to a rep each month with the hope that the rep sells enough to reimburse the company. The recoverable draw method is where a rep is responsible for paying for shortfalls in commissions out of future commissions. Nonrecoverable draw doesn't require a rep to reimburse the company. Recoverable draw offers less financial exposure to a company, but non-recoverable draw is more attractive to reps, who will have increased earnings stability during their first months on the job.

The **"sink or swim"** sales compensation plan, also known as "pay for performance," is the fourth approach. Most companies realize that although there is no direct financial exposure, it may be difficult to attract qualified reps without offering any salary. Also, by not having any financial leash on reps, it is difficult to direct sales efforts. Although all of these approaches are widely used, there are also effective, alternatives that can drive your sales team to new heights of success.

Whatever type of plan you create for your company, Bill Coleman, senior vice president of compensation for Salary.com, recommends considering these ingredients for designing a good plan:

- * REMEMBER THE CUSTOMER. Treating customers well before, during and after the sale is a wise investment.
- * ACCOUNT FOR SALES CYCLES WHEN DESIGNING THE PLAN. Know how long it will take to close a sale and how much time and effort is required per sale.
- * SELECT A FAIR COMMISSION. Whether it's a percentage of pay a percentage of sales or a target dollar amount, proper calibration of your sales plan is crucial.
- * DON'T NEGLECT BASE PAY. Use market information to ensure your base pay levels are competitive. Salespeople live on base pay until their bonuses are paid--so if pay is insufficient, a few bad cycles could send your salespeople elsewhere.
- * REVISIT, REVISE AND RESET. Your business, your strategy and the economy will change with time. The plan should be flexible enough to change in stride.
- * ENCOURAGE COOPERATION AMONG SALESPEOPLE. Sometimes it makes sense to give credit for an assist--that way, salespeople can bring in the best person for a particular deal without losing the commission.

Additional reminders in designing your plan

- * DESIGN THE PLAN FOR THE JOB, NOT THE INDIVIDUAL. Too frequently, entrepreneurs are attracted to a "type" of salesperson (such as one who sells on commission) rather than considering the characteristics of the selling situation. Focusing solely on people instead of on the job is the difference between hiring a few "rock star" salespeople and putting together a scalable sales force that can leverage the business.
- * KEEP PLAN MECHANICS SIMPLE. A limited number of measures (no more than three) and simple formulas make a plan easy to explain and understand. One of the goals of any plan is to direct, motivate and reward the desired behavior--and that's not possible if salespeople don't understand the plan.
- * MAKE IT PAY FOR SALESPEOPLE TO OVERACHIEVE. If the target incentive opportunity (commission or bonus) is \$50,000, then, assuming profit margins and talent retention will support it, the upside should fall in a range of two to three times the target (\$100,000 to \$150,000) for outstanding performance.

Get Creative With Compensation

Be flexible when designing compensation plans for your sales staff. Below are ideas that are adaptable to many situations.

Situation	Problem	Compensation Strategies
New company, no established brand	Limited budget, sales staff needs to aggressively solicit new business	Offer lower salary, higher commissions. In some cases, if owners are willing, offer equity in company or profitability bonus as compensation to recruit an experienced salesperson who is otherwise unaffordable
Company with well-established products, brands	Sales reps tend to sell the flagship product, ignoring new markets, products	Company can pay lower commissions on existing products, higher on new products or for selling to new accounts
Small company	Difficult to get sense of competition going between sales reps (competition often drives sales productivity in larger companies)	To develop friendly competition, set a shared or "room" quota and bonus; small staff competes cooperatively against that benchmark
Company with long sales cycle	Sales commissions take long time to earn; reps unwilling to take bulk of compensation in commission	Company typically pays higher salary, lower commission, or can pay draw (i.e., expected year's commission) broken down on a monthly basis. Company must closely monitor progress of sales pipeline
Company with consistent but flat sales	Reps may have become "order takers"	Institute new business quota and offer extra commission on new accounts
Sales representative is junior, unseasoned	Rep needs time to be trained and to establish contacts and productive accounts	Start paying higher base and lower commission, but arrange (either by tenure or sales) to gradually increase percentage of compensation that comes from commission, not salary
Sales representative routinely reaches pre-established targets	Rep needs to be encouraged to keep selling, especially since gross profits tend to be higher on higher sales volumes	Rep becomes eligible for corporate bonus on top of commission
Many employees contribute to sales efforts	Sales people get all the money, rest of the staff is disenchanting	Corporate bonus program that rewards entire staff