

10 Easy Ways To Mess Up Your Sales Force, and Eleven Good Ways To Fix It!

By Alan McAnally, President, SalesComp America ©2004

1. Never Ask Salespeople What They Think About the Compensation Program

There must be something mysterious and secret when a company thinks about how it should pay and incent its salespeople. We ask engineers for ideas on how to make the manufacturing process more effective, research people how we can develop higher quality at lower cost, and even take employee surveys covering everything from morale to cost savings. Wouldn't you think that sales management would seek the counsel of salespeople when developing or revising a sales compensation plan?

In most instances, this never happens. And it is hard to uncover the reason why. In large companies, bureaucracies can foster policies that are often made very far from the field. Sometimes there is a little attitude of "knowing it all." It is not uncommon in a large company to have rigid policies or inflexible thinking which communicates a "take it or leave it" atmosphere. Taking this approach about compensation in a large sales force is, as many might say, just opening up a "can of worms." Big mistake!



In small companies, particularly ones that are privately or family owned, it can be the same, but for different reasons. It is no secret that the owners of many small companies, while wanting, or perhaps desperately needing growth, can have the attitude that "It is my company and I will decide what is fair and what isn't." Just as they withhold the type of financial data that is commonly shared in public companies, they feel no need to bring salespeople into this "financial

tent." This too is a big mistake. While private means private, and should be respected, it is counterproductive not to involve salespeople in a discussion of their own future.

There are other reasons why managers exclude the views and suggestions of the salespeople. Ignorance and complacency come to mind, as well as an honest view that it just doesn't matter. This is unfortunate! The best sales compensation programs, the ones that are fair, bona fide motivators, and can achieve the greater goals of the company, usually involve discussion up and down the line.

Consider This: Ask your salespeople what they think of your current compensation policy and listen to their answers. This needs not be a threat to anyone. After all, you are not asking them to design or change the plan, you're just seeking their ideas. You might be surprised. Most salespeople understand only too well that you get paid for results, not just for showing up. Their views will give you insight into their morale, motivation, and most importantly, their expectations. At the same time, you can demonstrate sales management traits that are highly regarded in the field, i.e., sincerity and flexibility. When the salespeople know and believe that your desire is to maximize their income, and to be fair to both them and the company, sales compensation becomes a winning part of your strategy. People like being asked what they think. Most are smart enough to know that the questions are asked sincerely, and for the right reasons. Don't manage and sell in a vacuum; make sure you know what your people are thinking and listen to their ideas.

2. Make Your Hiring Letter Your Compensation Plan

The vast majority of companies handle the issue of sales compensation very simply. When they hire a new person, they formalize the arrangement with a letter. This letter usually includes wording such as "your benefits will include", "We are pleased to offer you", "Your effective date of hire is." and so on. Invariably sandwiched in there is a reference to the salary, draw, guarantee and incentive offered. Actually, there is nothing outrageous about this method. It's just that if you hire five different salespeople, should there be five entirely different plans? Can a letter include everything that you should cover?

Probably not. A casual approach can create problems. But it goes a lot deeper than that. So what's wrong with just saying, "Look, here is your salary for the next year. If you sell X amount of our product, we will pay you an incentive of Y percent of gross sales?" For some businesses and very basic selling environments, this can work without too many headaches. Let's face it, people are doing this every day. Yet it doesn't address the real underlying issues that continually surface in a more complex sales arena.

Let's examine some of them. How important is it to have clear guidelines and procedures for such things as these?

- Late or non-payment by customer
- Territory or account assignment changes
- Windfall sales - incentive limits
- Unprofitable sales
- Promotions
- Resignations
- Terminations
- House accounts
- Split commissions - multiple salespeople
- Incentive (commission) back up data

These ten situations come up frequently and need to be defined.

Late or non-payment by customer

This is a common issue that frequently surfaces, and is closely related to the "bad" sale. There is not much of an argument to that old adage, "When the customer pays us, we'll pay you." It makes a lot of sense and is certainly fair. But what about the customer with a receivable inching up to 120 days? What do you do? Who's responsibility is it? Where's that salesperson who sold this order?

Whether sales compensation is related to payment terms is not the issue. There are too many different industries, products and services to even begin to make a rule. But if you want to cause a lot of havoc in the sales ranks, withhold a commission unexpectedly from someone when they

had no idea their pay was tied directly to on-time payment. Payment is one thing, on-time is another. Again, you need to detail the ground rules for the salesperson's accountability well before the sale takes place.

Territory or Account Assignment Changes

When most salespeople come aboard, they are hired with a specific job description and job assignment. While you don't have to promise that everything will stay the same, people taking new jobs have a host of expectations. High on the list is what they expect to earn. At the same time, territory changes are a fact of life. They can benefit both the company and the salesperson. Change, however, can affect income, both up and down. This is too important of a possibility not to address in detail when you first hire the individual. Some people think of territory changes as a "planning matter" or "moving bodies around." Yet it's certainly more than that when it can have a profound effect on what your salesperson can expect to earn in the next twelve months.

Windfall sales - incentive limits

The objective of most "hunters" is to sell as much business as they can. The person on top loves the recognition, sense of achievement, and of course, the dollars that result. If you want to have your best salespeople take a step toward the door, tell them this. Just after they sell the "deal of the year." Tell them that you'll only pay them part of what they thought they were going to receive. Add some spice to it by saying, "Senior management doesn't feel that paying a commission of X on this business is appropriate."

Sure, every company is a little different as is its selling environment and product profitability. There is nothing wrong with establishing incentive limits. But bear in mind that if you do this, you have to communicate the details well in advance so that everyone knows the rules.

Unprofitable sales

Nobody really likes to talk about these worse case scenarios, particularly in the upbeat atmosphere surrounding the hiring a good salesperson. The conversation usually is oriented around the positive things that can happen in the future. Who wants to talk about negatives? Yet as we all know, not every sale is a good one; not every sale makes money.

This is a fact of life and the time to address how or if this affects a salesperson's compensation is up front, not after the fact. Aside from all the reasons that the sale is a bad one, you can't add much to salesforce motivation by making up payment policies "after the horse is out of the barn." There is certainly nothing wrong with tying compensation to profitability or margins. A lot of smart companies do it, but you need to detail the precise criteria for incentives well before the ink is dry on the purchase order or contract.

Promotions

This is a happy thought because it usually is a time when both the company and the individual are excited, motivated, and looking forward to great days ahead. Yet more often than you would think, this scene can turn quickly to the proverbial "ants at the picnic." The day you hire a salesperson, there should be the possibility that the individual will thrive and grow in the organization, and that some type of promotion could eventually occur. But after you have announced the promotion is not the time to make up the compensation policy guidelines.

The hiring letter is obviously not going to address this situation, and it really shouldn't. But this change in status for salespersons on their way up shouldn't cause unpleasant negotiations or anxious moments. What happens to the incentives earned while in the old job needs to be spelled out in great detail as part of an original, detailed compensation plan.

Resignations and Terminations

Is there a sales manager anywhere who hasn't faced these situations with a loss of words on how to handle the compensation earned. If you leave on your own, why should we pay you? Or when do we pay you? Do we pay you at all? While different from resigning, a termination really has the same considerations. Under what circumstances does the individual receive earned incentives? What is he or she entitled to? What's the answer?

There is no one, correct way to do it. Actually, the answer itself is not as important as realizing that this should be a major issue of fairness (and of legal interest in some cases) that is thought out as policy well in advance. This is not the time to look at a salesperson and say, "About your commissions, let me look into it and I'll get back to you."

House Accounts

Here is an issue that if not handled correctly up front, can cause you disruption and problems with a salesperson. Rarely does the brief "hiring letter" address this. House accounts make a lot of sense and the majority of companies have them in one form or another. They are usually some of the bigger and better customers you have. The conventional wisdom makes sense, namely "Why should I pay a salesperson money for an order when they really don't have to do anything for it? We have had the account for 15 years and management can handle it just fine."

This is okay if you have defined this from the very beginning. You can't take new business opportunities, or add-on sales for that matter, in a salesperson's territory and set the rules after the game starts. Salespeople understand the reality of house accounts; you just need to communicate the guidelines right up front.

Split commissions - multiple salespeople

It is not uncommon to want a more experienced salesperson to help a new person. For example, maybe an account has locations in two territories but the orders all come out of one central

office. Whatever the situation, the most important thing is to have all parties know in advance what the rules of engagement are, and exactly how each person will be compensated. Spilt commissions can be associated with deals that truly benefit the customer, the company and the salespeople. Done right, it is a win for everyone. Done arbitrarily or unfairly, however, there are few things that can cause more anger or disappointment. There are no excuses for surprises like this

Incentive (commission) back up data

A good way to infuriate salespeople is to hand them a commission check for less than they were anticipating. When they question why, tell them, "I'm not sure, we'll have to go back and check how they calculated it." This is totally unsuitable in a professional sales organization and is an embarrassment for sales management. Stop and think about it. A person waits a month or two to receive a check, has obligations against it, and suddenly realizes that it's short of expectations. This is too important an issue not to address. The solution is as simple as providing detailed back up on the accounts, sales and periods that were used to calculate the incentives.

3. Don't Pay Them Regularly. Keep Them Guessing.

Here is one of the best ways to make sure that you thoroughly annoy and de-motivate your salespeople. Don't pay them the money that you owe them on the day that you said you would. Hopefully, your reaction to this is, "What's the problem here? It doesn't seem like a very hard thing to do. If they've earned a commission and it scheduled to be paid, why didn't we do it."

Sales managers usually don't sign incentive checks. Financial people do. There is nothing more demoralizing than the salesperson following up on the status of his or her check and hearing, "Look, I am jammed closing out the period, and the budget is due next week. I'll get to it as soon as I can." Salespeople and financial people often look at business through very different lenses. It is no surprise that their priorities may be very different as well. Yet, when you think about it, would you go into the plant and tell the third shift that "we really appreciate your work and I hope you don't mind if we hold this week's check up until next Monday."

Consider This: Professional companies determine the exact dates, based on periods, weeks or dates, that they will pay incentives. These dates should be in writing and acknowledged by management and salesperson alike. With the same importance given to period closing, debt payments or paying a major supplier on time, salespeople should be able to count on their compensation on time and calculated correctly.

4. Don't Furnish Supporting Data for Salespersons' Incentive Checks.

Keep them guessing. And while you're at it, waste a lot of time on the telephone or in person having the salesperson and the financial person going over ground that didn't have to be covered. However the calculation is made, it is important for company credibility that the incentives be correct. No salesperson should ever have to feel uneasy about the accuracy of his or her check. There is no reason not to provide supporting data to the salesperson, detailing exactly how the check amount was determined. Doing this can allow the individual to catch any mistakes or question some element of the compensation calculations.

Consider This: Take the approach with the salespeople that "This is your hard earned reward, here is how we calculated what is due to you, and please, let us know if you have questions on anything. If you do have a question or there is a mistake or oversight, let's address it right away."

5. Change the Sales Incentive Structure Frequently

Keep the salespeople off-balance and make sure that you keep changing the plan. Just when they understand what you are trying to accomplish, and what they need to do to reach their financial objectives, try something new.

You would be surprised how often compensation plans are changed as a result of a whim or a reaction to a specific situation. While there is nothing wrong with changing plans for good reason, a sale by one person, for example, who had a wind fall account fall into his or her lap,

shouldn't cause a wholesale overhaul affecting everyone. If a sales reward program is to be effective, it is important that each salesperson be comfortable with its provisions and measurements. They should be continually thinking in terms of their reward versus their accomplishments. A good plan, one that both meets the needs of the company and the salespeople, should not have to change very often.

Consider This: Get it right the first time. You can hold sales contests and have periodic product or service promotions, but the core of your business doesn't change every year. Develop a solid, workable sales compensation plan that reinforces your strategic goals and objectives, allows your sales force to thrive, and then stick with it. Change it only when it fails to accomplish these principles.

6. Pay Your Salespeople Grudgingly.

This would seem to be a ridiculous situation. Why on earth, when sales is the life blood of any company, would there be resentment in paying the salesperson? Well it happens and is one sure fire way to have your best salespeople scrambling to join the competition.

Over the years, we have seen this to be fairly common. In smaller firms and family owned businesses in particular, there is often a reluctance to, or outright hostility toward, paying generous amounts to salespeople. Founders and others who "gave birth to the business" may resent what seems to be inordinate compensation for "taking orders on what are clearly superior products that sell themselves."

On the other hand, the people in the day to day, non-sales related work often earn much less than the star salespeople. Frequently, they may often work longer and harder than their sales counterpart. This is true, in many cases, of the person actually calculating and paying out the commission. It is not unheard of that some of these individuals might feel that "salespeople don't deserve that kind of money for doing what they do." A large percentage of these people may also feel that a salesperson's work is easy in comparison to their own. Put this all together and you have a guaranteed formula for problems.

Consider This: Find the right sales compensation program that is cost effective for the company. Look at what you will reward a salesperson with in comparison to the profitability of the sales and its impact on the growth and health of the company. Once you do, make it clear that the well-being of everyone at the company is contingent, to a large degree, to the success and retention of top producers. Don't allow small minded or jealous employees to sabotage a positive sales momentum.

7. Put Real Restraints On Their Earnings

An excellent way to clean out your ranks of top salespeople is to have them flock in droves to your competition. Setting unrealistic ceilings to their earning power can do this very quickly.

No one argues that a salesperson, by some birthright, needs unlimited commission potential. In some companies that is the case, in others it is not. There is no right or wrong answer except that which is dictated by common sense, competitive factors, the nature of one's business or industry, and the type of sale. The principle of defining upper limits of compensation, and establishing rules up front addressing "windfall" sales have been long accepted. There is nothing wrong with this. Yet be very careful. All things being equal, the company is generally served well by motivated salespeople knowing that they have the opportunity to "earn big for big results." The block buster sale is the holy grail for many producers and should not be discouraged. A caveat: put brakes on their enthusiasm and earning power only after you have with well-thought-out the justifications.

Consider This: When you decide to limit a salesperson's earning potential, make sure you have a detailed sales compensation program that both the company and salesperson acknowledges in writing. Spell out clearly the specifics of what, when, how, and why of your policy and make sure that the program's provisions truly reinforce your company goals for growth.

8. Ensure Compensation Plans Conflict With Your Company Goals.

We keep talking about company goals and how the sales compensation structure should support these goals. This sounds easy enough and very basic. Why would you want to pay your salespeople to promote products and set priorities on anything other than what is important to the company?

More often than not, the objectives and goals of a company change more frequently than its sales compensation program. Examples of this abound. Take this situation. A company wants to introduce a new product, one that is felt to be superior to the competition. The price point is about 10% higher than what's generally available, yet the real cost and value to the customer, in the long run, is less. The type of customers who will be interested in this product are very specialized and generally very large. They aren't around the every corner; in every territory the salesperson has to travel and make a special effort to develop the business. Competition is fierce but you are confident that quality and cost effectiveness can overcome the obstacles. Your new product is extremely profitable.

Let's assume that all the salespeople are on a salary and 5% of all gross sales. Do they have an extra incentive to change their habits overnight and concentrate on this product? With the same commission structure, they could be faced with more difficult initial sales calls, more travel, abundant competition and little financial incentive to alter their focus. Sure, you can offer special incentives or run "contests", but that begs the real question. Doesn't it make sense to pay more for results that (1) contribute so much more to the company's gross profits and (2) has a very positive impact on the company's future? If it is a priority for management, why not make it a priority for the sales group and give them the incentive and motivation to prioritize their personal goals with those of the company?

Consider This: Take a hard look at the various products and services that you offer. Determine which are easier to sell. Which are commodity sales with smaller profits versus specialty products with higher profits. Where do you want your salespeople to spend their time. What products represent the future of your company? Once you have a good handle on the answers,

change the sales compensation plan to emphasize, stress, and encourage the sales of these products.

9. Make Your Plan As Complicated As Possible.

The philosophy of "Keep It Simple, Stupid" usually works pretty well and is an easy way to communicate. Nevertheless, important facets of your business, such as salesperson compensation, need detail and thoroughness. To do it right, you need to be guided by common sense.

A salesperson should be able to know, within a few dollars, what he or she will earn as a result of their sales. Sure, the incentives will vary as the revenues come in or the margin is determined, but figuring out what one will earn in the next few months should be easy. Complicated incentive plans, with projections so complex that only a CPA can do them, are a sure way to exasperate your sales force. Attention to detail does not equate to unwieldy, obscure plans that can force a salesperson to overly scrutinize the results. You can't have so many formulas and contingencies built in that the salespeople themselves have trouble figuring out if they received what they earned.

Consider This: Decide what exactly you want to accomplish with your sales compensation plan and then with the draft, ask some of the salespeople to review the concept and mechanics. If you pick the right individuals, you can rest assured that if the plan isn't clear, you'll hear about it.

10. Reward New Business The Same As Existing Business.

It is often said that the best and most profitable new business comes from your existing customers or clients. You know more about them, you have better access to the decision makers, and they presumably have confidence in your company. Yet few companies, over the long term, can grow and survive without new locations and customers. Expansion can be key to survival.

It is a surprising fact that most companies, from an incentive viewpoint, regard existing customers and new accounts the same. If you pay a salesperson a five percent commission on revenues, then you pay them the same no matter who buys! Maybe there is no right or wrong answer here but it is worthwhile to think about the concept.

There is something very comfortable about customers you know and who like you and your company. Prospecting isn't always fun. In fact for many salespeople, it is down right intimidating. It is time consuming as well. Yet the whole concept of prospecting, lead follow up, and concentrating on new accounts is the lifeline of most companies. So why shouldn't this extra, more difficult effort that is so vital to the company's future be incented to reflect its importance? Companies that don't appreciate and reward the value of new business often don't enjoy much of it.

Consider This: Take a hard look at your business environment and the structure of your new business effort. If new locations and accounts are vital to your success year after year, reward new accounts in a more generous fashion that you would existing ones.

11. The 11th Way To Fix It All

A recent survey by Sales and Marketing Management magazine indicated that 64 percent of sales executives rated their current sales plans as only "somewhat successful." The survey also showed predictable and dramatic variances on how American business approaches the proper rewards for salespeople. It additionally said that in 2003, less than half of these executives reevaluated or changed their plans to make them more effective.

These statistics would tend to support the way we believe you can avoid most of the problems discussed in this paper. It is simply to *periodically pause and take a fresh look at your sales compensation program*. Sure, there are a lot of ways to "mess up" up your sales force but sales compensation doesn't have to be one of them. So take the time and effort to review and evaluate what you are doing. When you do, you might be surprised how quickly you see sales and profits soar.