

Compensating Sales Reps: How to Find Incentives that Work

By Donya B. Rose, *August 2004*

Many employers find the compensation expectations of their salespeople aren't aligned with the profits they generate. Sales reps often say they need a bigger piece of the pie because selling is harder today, while employers are finding they need to offer lower commission rates because profit margins have decreased.

So what's the answer? It's not easy, but there are a few principles for compensating sales reps that may offer some guidance:

- **Be sure you know the market value of the job you are asking your salespeople to do.**

The market value of the job is the amount you need to pay the employee in total compensation. To establish a market value, consider what the people with the skills you need could earn outside your company in another job for which they are currently qualified. In addition, consider what you have to offer in total compensation to attract new people into the job. And finally, consider other jobs in your own company at a similar level of responsibility and skill. If your industry has an active association, there may be useful industry-specific compensation survey data available to help establish the market value of sales jobs.

- **Establish productivity targets (quotas, sales goals) that make sense.**

Reasonable productivity levels may vary from one company to the next for similar sales roles based on the strength of the brand, the breadth of the product line and other factors. Similarly, reasonable productivity expectations may vary within a single company by salesperson based on tenure and experience, degree of penetration in the assigned territory and the strength of any competitor in that territory.

- **Use a formula for variable pay that ensures a contribution from each seller.**

The expected level of performance and the market value of the job must work together to create value for the company. This happens when the profit generated by sales reps exceed the full cost of employing them by enough so it's "worth it" to hire, manage, coach and include them in the company. Assuming your salespeople are able to sell enough to more than cover their cost to the company, you can design a payout scheme to reward them for delivering.

- **Put accelerators into the plan to create excitement for over-target performance.**

Once sales reps have "covered" their fully loaded costs and achieved what is expected, it's a good idea to give them a bigger piece of the action. This helps pull them forward so they can get into the "sweet money," and it also keeps them going once they are over target since they aren't sure they'll get into accelerators next year.

- **Use caps sparingly, if at all.**

Salespeople hate caps, and they are rarely necessary. There are usually better ways to protect against over-payment without validating all of the sales staff's worst suspicions about management. Per-deal caps can limit earnings for any one deal to a large value, but keep the motivation high to pursue the next opportunity. Decelerators at a very high level of performance can keep sales reps earning more on each deal, but at a slower rate.

- **Bestow non-cash rewards.**

Rewards that add to the prestige of your best salespeople may be highly valued. These may be recognized at sales meetings and signified by a special gold seal on a business card so that associates

and customers are aware of their achievement. Luxury trips they may not have chosen to afford for themselves, and which also include and recognize their families or significant others, can be more meaningful than the cash it takes to fund them. In addition, eligibility for funding of continuing education or certification may help sales reps advance their careers while giving you a more capable employee. Listen to your salespeople and find out what they might value more than cash, then tie meaningful rewards to meeting performance objectives.

A Changed Game

If such strategies aren't practical -- or if you are taking these steps and your sales force is still disgruntled -- maybe your whole model for using sales reps should be re-examined. For example:

- Are there low-volume customers that could be served by an inside sales group or an online sales outlet?
- Are some of your salespeople better at new account acquisition while others are better at maintaining long-term relationships? (It may be that the same compensation arrangement isn't right for both types of sellers.)
- Are your margins eroding to the point that you are supporting a *de facto* commodity like it's a custom sale?

If the rules have changed enough, you may still have an opportunity to adjust before your competitors do and gain an advantage from the change.

Donya B. Rose is a partner at The Cygnal Group Inc. in Chapel Hill, N.C. She can be reached at donya.rose@cygnalgroup.com.



Society for Human Resource Management

1800 Duke Street • Alexandria, Virginia 22314 USA

Phone US Only: (800) 283-SHRM;

Phone International: +1 (703) 548-3440

TTY/TDD (703) 548-6999

Fax (703) 535-6490

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