



Document 16-11

Compensation Plan Ideas

14 million Salespeople in the U.S.

- Salespeople -highest number of employees with “at risk” pay
- Self-employed (the “gig economy”)
- Managers
- Entrepreneurs

** The effort expended has a huge impact on the result obtained.

** Effort is something that can be measured.

Types of Plans –B-to-B

| Compensation Method (Frequency of Use) | Especially Useful | Advantages |
|--|--|--|
| Straight salary (10%) | When compensating new sales reps; when firm moves into new sales territories that require development work; when sales reps must perform many non-selling activities | Provides sales rep with maximum amount of security; gives sales manager large amount of control over sales reps; is easy to administer; yields more predictable selling expenses |
| Straight commission (5%) | When highly aggressive selling is required; when non-selling tasks are minimized; when company cannot closely control sales force activities | Provides maximum amount of incentive; by increasing commission rate, sales managers can encourage reps to sell certain items; selling expenses relate directly to sales resources |
| Combination (85%) | When sales territories relatively similar sales potentials; when firm wishes to provide incentive but still control sales force activities | Provides certain level of financial security; provides some incentive; selling expenses fluctuate with sales revenue; sales manager has some control over reps' non-selling activities |

Compensation Plan Ideas: Defined Earnings Plan

- Set the targeted earnings for the individual
- Set amount to be base salary
- Set amount to be at risk (to total the targeted earnings)The “at risk” paid amount is a percentage of the goal obtained:“at risk” target x amount achieved/goal = paid amount
- Numerous “at risk” targets can be used

Benefits: Separates what the organization wants to pay from the actual sales goals. Allows percentage of sales to vary year to year, and allows the organization to pay on a variety of metrics

Compensation Plan Ideas: Commission on Sales

- Set amount to be base salary
- Pay a certain percentage of sales

Benefits: Ease of calculation. Directly rewards rep for performance. Typical plan.

Compensation Plan Ideas: Commission on Sales + Spiff (Bonus)

- Set amount to be base salary
- Pay a certain percentage of sales
- Pay certain spiffs (for example, on customer loyalty, satisfaction)

Benefits: Ease of calculation. Directly rewards rep for performance. Allows the organization to pay for non-sales performance.