



How to get the best from your sales people: Don't Pay Them Commission

By Craig Tamlin, PeopleFit Australasia, 2009

Many business managers consider that selling is a challenging and complex black art that requires a mix of hunter, extroverted personality, and a slick attitude to excel in such a role. They delegate the responsibility of the sales, one might say completely **outsource** the sales process, to highly paid sales reps, in the hope that they can deliver the results. They figure that if they throw more money at them, it will offer the required incentive to magically attain the revenues needed by the company.

It seems the sales "industry" has unilaterally decided that commission is necessary to get results from sales people, as perhaps sales individuals are inherently greedy, and need to be motivated by money. Linked to this is the fact that businesses expect that only the best sales people can be attracted to a role by the prospect of the big dollars that come with the potential "upside" of a generous commission plan. Conversely, sales managers don't want to pay big salaries when there are not adequate results. They see a commission-based pay scheme enabling a reduction of total payments for a poor performing sales rep, whilst awarding the over-achiever.

At the end of the day, companies are primarily in business to unashamedly

maximise profits. The influence the sales people have on this is to increase revenue.

True Drivers of Sales Outcomes

Sometimes great results are achieved by the intersection of competent sales professionals, with the right product, and a customer or customers who have a need. Many times it begins with an established network of clients that the sales rep brings with her from role to role within the industry.

Of course, many sales are just the result of plain old luck - being in the right place at the right time, a favourable territory, a revolutionary product, the failure of a competitor, or a combination of these. In such circumstances, the skills of the sales person really is tertiary in the mix of elements that creates the success, so long as she exhibits an appropriate base competency and professionalism in line with what is being sold.

To the degree that the sales process can be systematised, variable compensation can be eliminated or reduced. High volume, commoditised, low-moderate margin products and services sold by entry level sales people certainly easily fall into this category, and we often see examples of this.

Problems with Commission-Based Pay

Not just in sales, but in any role, incentives based on outputs cause harm. Sales roles stand out because the incentives are a significantly greater proportion of total remuneration than for other roles paid this way.

In the workplace, employees seek to be treated with trust and fairness. Yet most sales compensation plans deliver anything but this. There are a litany of issues related to commission-based sales roles that are worth examining:

- No matter how much effort is put into developing a sales plan, there will always be some conflicts between offering an incentive to the sales rep vs the objectives of the organisation, in that only a small number of core corporate objectives can be targeted.
- Setting a specific sales target, or a range of targets, does tend to sharpen the focus of sales reps. If it is within their reach, they will most often turn heaven and earth to reach the target. Exclusive focus on one goal, or even a small set of goals, may not be in the best interests of the organisation.
- Overachievement frequently stops when the sales person has earned what is perceived to be “fair pay” for the work done. It is the interests of the business to always maximise sales, when aligned with available production resources.
- Management somehow tend to tolerate poor behaviour from sales people, where with other employees it is stepped on immediately. They can seemingly flout many common-sense rules for business behaviour, in the name of getting the sale.
- Even in the best organisations, the calculation of applicable commission is complex, often inaccurate, and always



open to interpretation; usually through accounting and measurement issues, but also poorly defined measurement systems.

- At times, previously successful approaches to sales no longer deliver the same level of results. These situations have dire consequences to the business, not to mention the sales rep who, through no fault of their own, and without making any changes to the way in which they perform in their role, suffer a loss in income.
- It is challenging for a sales rep, in evaluating which company they should work for, determine whether they should accept a certain OTE (On Target Earnings – expected income at 100% of target) with 50/50, 60/40 or 70/30 base/commission split from company A or company B?

When you put it all together, that sounds like a solid body of evidence to move away from commission based sales roles.

The Role of the Sales Manager

Like other roles in the company, Sales managers must provide for on the job training for their people in a variety of sales related topics (negotiation, proposal writing, product/service skills training, presentation skills, and so on). These are all important and necessary. However, not all sales managers provide **systems of work** for their sales people, leaving it up to the individual to work out what works best for themselves. The sales rep is traditionally accountable for the **output** and therefore must figure out most of those tasks which lead to the result. As mentioned previously, the sales process is largely outsourced or abdicated.

Further, there might be factors contributing to the results that are completely outside of the sales rep's control, despite the best sales skills in the team. Such events might include a major organisational situation or roadblock, such as a restructure.

The fundamental issue with commission based sales is the abdication by management of the sales process. Just as in every other role in an organisation, a sales manager needs to take ownership of the results of the sales team. To a point, the sales reps themselves are **not** held accountable for their results.

If the manager is accountable for the output (the sales results), what would change? The manager would ensure that the right work is being done to position the company's products and services ready for the sales rep to talk with the clients about the solutions, and make the sales. The role would be more than forecast management and running a few meetings, but utterly and totally committed to and

accountable for the results. This doesn't prescribe a scenario for micro-management, but is a fundamental shift in accountability for the outcomes, which will drive considerably different behaviour than many of today's sales organisations and results of the businesses they serve.

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When sales take a nosedive, an effective sales manager should look to address the types of market impacts observed with a review of the go-to-market strategy. This does not mean that the sales manager must solve the problem entirely by himself. A decline in sales affects everyone in the organisation – right up to the CEO, not just the sales reps. Everyone's livelihood depends on the business results coming in. Steps required could include building a cross-functional team, and have them get out and talk with customers, industry analysts, and business partners to recalibrate their view of the situation, then brainstorm for issues and devise solutions. Rather than just tweaking at the edges, or offering a bigger carrot, what is needed is “going back to the drawing board” thinking.

The role of any manager, and therefore the sales manager is to assign tasks, set objectives, review performance, judge effectiveness, and calibrate one sales person against another to determine differentiated performance. To do this successfully, the sales manager needs to be one level of capability above the sales reps in the team in order to offer insights and add value, and provide appropriate input to career development.

The Role of the Sales Rep

Does this mean we do away with sales targets or quotas? Not in the least. Each sales rep needs to work to achieve a target set and agreed between them and the manager, and work at achieving this target with their full commitment. The rep must not surprise his sales manager with changes of any type (positive or negative).

The manager must be in agreement before any adjustment is made to any target set. The difference in this model is that the manager is accountable for the sales rep achieving the target. The sales rep is accountable to work to their maximum effectiveness in the role as defined by the sales manager. If it is looking to be a slow month or quarter, and the results are not up to standard, then the sales rep **and the manager** must sit down and discuss the situation, perhaps on a daily basis, and make plans for rectification.

Each individual in the sales team must commit to the following:

- Working effectively on tasks assigned
- Giving their manager their best advice including informing the manager when their outputs will differ from those assigned
- Making decisions with team members according to the context set by the manager
- Working within the organisation's policies
- Commitment to use best endeavours to apply personal capability to achieve assigned outputs and meet accountabilities, within the resources allocated by management.

At the end of the day, people seek to work at a level to use their capabilities to the full. This implies that they seek work that

is appropriately challenging – interesting, with some stretch. Over a career, the level of complexity one seeks in a role increases. Commensurate with the complexity, people seek fair differential pay for that work.

How to measure the effectiveness of sales people

Assessing the effectiveness of a sales rep, is a subjective measure performed by the manager when taking into account factors pertaining to the work of the individual. Not only is the sales manager looking at outputs (sales results), importantly the individual's effectiveness is measured on a range of other behaviours exhibited when performing in the role. These include:

- Operating within the core set of accountabilities as defined by the role, for example: forecasting, attendance at sales meetings, minimising and dealing with customer complaints, timely follow-up of customer enquiries, rolling-out corporate initiatives and programs
- Executing to a general set of commitments required in every role (as per the list left), on the basis that a sales rep will have a sales-related flavour of the relevant commitments
- Working to stretch their deliverables where appropriate for this business – not just being content with “what is”, but adding value within the guidelines provided by their manager
- Strive for continuous improvement in the role, so that better, more efficient methods are sought and wrapped into the daily work processes for the betterment of all
- Treating the business as if it was their own, by minimising wastage, and looking for efficiencies in resources used in the role
- Working collaboratively as part of a cohesive team.

Sales reps are then remunerated as follows:

- A base salary, determined by the relative worth of the work of their role to the organisation. This includes assessing the complexity of the role relative to similar roles in the organisation.
- Consistent with the rest of the organisation, these roles are paid within the salary range set for that level of work.
- Regular (annual) performance measurement as carried out by the immediate manager to assess the effectiveness of the employee in the role,
- An adjustment to the base salary when the company salary program allows for an increase, which is differentially applied to employees based on their relative effectiveness.

How to transition to a salary-only sales plan

It is clear that an organisation cannot simply adjust to a new sales compensation plan and make the switch tomorrow. The following elements need to be in place for this to work successfully:

- Appropriate managerial practices, including role design, structured systems for task assignment, a system for ongoing performance management, and appropriate authorities to match the felt weight of accountabilities expected of the role.
- Effective Systems in place including a well defined sales process with clearly articulated accountabilities that incorporates all aspects of the role.

- A compensation system that is transparent and consistently applied to all employees

Once you achieve this, the outcome will be one of trust and fairness because of the clear systems and processes in place, and it will engender a corporate culture that is supportive of the ethos embedded in the concepts above.

Conclusions

All employees need to be assigned valuable work, to be held accountable for their work, and to be rewarded and recognised appropriately for that work.

Sales people are no different to other employees. They are attracted to sales roles because they fundamentally value the work, it builds on their skills and knowledge and it stretches their thinking capacity. They will expect to be paid fairly for their personal effectiveness in contributing to the business objectives. It is the accountability of the organisation's leadership to ensure that the remuneration system builds trust and excellence across the organisation, ensuring differential pay based on merit.

Underlying all of the comments above on compensating sales people, the key message is:

- hire competent individuals,
- who are judged to be capable in the role from the perspectives of knowledge, skill and experience,
- who value the work, and
- can demonstrate the appropriate level of capability for the role.

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