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October 2, 2007

The Big Picture

Staff Writers

Developing Sales Commissions Strategies

The jan/san industry, like many others, faced some difficult economic challenges shortly after 9/11. Many industries, such as travel and hospitality, which buy huge amounts of cleaning and related products, essentially came to a halt and took more than two years to recover.

Many distributors, who were seriously impacted by this economic turn of events, had to re-evaluate their business operations and look for ways to weather that economic storm and deal with some very tough times.

Some distributorships tried increasing sales commissions to generate more sales; implementing different sales commissions policies; or offering salespeople additional "perks" to generate more business.

However, for a distributor to solve common issues, such as turnover and maintaining profit margins, these decisions must be based on a much broader company plan and perspective.

"They should be considering such issues as the company's 'big picture' goals and directions, the market segments it plans to serve, the market share they want in those market segments, and the firm's overall value proposition - the unique added value that their distributorship can offer customers through their operations," says Paul Lemieux, president of Pro-Link, a jan/san-focused marketing and buying group based in Canton, Mass. "They must have a clear strategy, an alignment with that strategy, and a strong hand on sales management."

In developing this big picture strategy, Lemieux suggests that distributors ask themselves:

- What market segments do I serve now and which would I like to enter?
- Is it worth entering those new market segments?
- How can I add value to these market segments?
- What market share do I want to have in these segments after one year? Two years? Five years?
- Do I have a plan in place to achieve these goals?

Once these and similar questions are answered, Lemieux says, distributors can develop sales commission strategies that are better aligned with the company's plans and outlook.

"Although there are no tried-and-true formulas that work in all situations," he says, "with a plan in hand, distributors can incorporate several effective strategies to help facilitate sales, motivate employees and build their businesses."

The following six issues are examples of what distributors deal with when it comes to paying their salespeople salaries and commissions.

Sales should be rewarded

"Handling existing customers and seeking new customers are totally different activities," says Lemieux. "It just seems like common sense that they be treated differently." He suggests distributors might consider paying more compensation for sales to new clients, which helps build the company, rather than for sales to existing customers. Additionally, he suggests considering sales of different product groups or increasing sales volume to an existing customer - examples of growing the company - as worthy of a higher commission.

"There is a tendency among some salespeople to just manage what has been established," Lemieux says. "An extra [compensation] reward often helps salespeople put more effort into building their client base."

Know the sellers

Distributors must always know which of their salespeople are the real producers and contribute the most to the firm's long-term growth and success. "Top performers should not subsidize low performers," says Lemieux. "Top performers should have a higher return on their sales."

Lemieux explains that an across-the-board compensation program, which treats every salesperson equally, can even have a negative effect on sales. "Producers may resent seeing some team members just coming along for the ride while they are trying to push the company up to the next level," he says.

When to pay commission

Many distributors wonder if paying their salespeople when a sale is made as opposed to when it is paid would motivate salespeople to bring in more business. Of course, most salespeople would prefer to be paid once a sale is made because it provides short-term incentive and immediate rewards. Many distributors prefer the "pay-on-paid" system because it can improve cash flow. However, interestingly, some studies indicate that the difference between the two strategies is negligible.

Encourage a company career mentality

Some people go into sales when they are between jobs and have no intention of making selling a career. Others see sales as their only career, with no interest in moving up the corporate ladder and taking a leadership role in the company. A company with a definite long-term strategy in place needs motivated, ambitious salespeople, who want to make working for the company their career goal.

"Salespeople with a company career mentality are great for business," says Lemieux.

Examine the equation

There is no one salary/commission formula to pay salespeople that has been proven to work better than any other system. Often, a rule of thumb for a salary-plus-sales program is for the salary to be 60 to possibly 70 percent of the earnings, with the balance commissions.

Even a distributorship with a strong sales management system in place may want to try different salary/commission equations. After this trial-and-error process, they can determine which seems to work best for their company.

However, what might be of greater importance than the actual equation selected is what the commissions are for. Commissions should be based on how much and what type of business (growth, profitability, etc.) the employee is bringing into the company. A higher structure and bonuses can be established for boosting sales with an existing client, opening up new territories, or bringing in new customers, as examples.

Look for other motivators

Surveys of business owners and managers in a variety of industries indicate they believe the best way to motivate the staff, including salespeople, is with more money.

However, surveys of employees and salespeople indicate that money is not necessarily the greatest motivator, although without question it does help. Many workers respond that being appreciated and recognized for their contributions to the company is their greatest incentive to produce more for their firms.

"This tells us we have to look beyond just money to motivate our sales staff; we must also show our gratitude," says Lemieux. "Many times, along with appreciation, a new computer, a gym membership or other perks can prove [to be] a lot more rewarding than just [monetary]

compensation."

According to Lemieux, no matter what sales-compensation strategy is implemented, training, support, and guidance must also be included. "No amount of compensation can overcome a lack of education in proper selling and customer-development techniques," he says. "For most of a distributor's clients, their salespeople represent who [the distributor] is. This means they must be professional, portraying the company in the best light. And the best way to do that, just as in other industries, is with ongoing training, support and education."

With a clearer understanding of the company's big picture strategy, distributors can better work with their present salespeople to help them generate more sales, increase profits and meet the firm's goals. It is the distributor's responsibility to incorporate this strategy and the plans of the firm with those of their salespeople so that both are working together to build the company.

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Are you satisfied with your commission program?

In an attempt to understand how jan/san distributors tackle many of the commission issues discussed in this article, we conducted a survey in August 2007 to gather information directly from "the man on the street," so to speak. Nearly 150 distributors took our online survey.*

Below are some of the survey's results:

- When asked if they were happy with their current sales force compensation program, only 23 percent indicated they were. Nearly 65 percent indicated they were "somewhat satisfied" or "satisfied" and more than 12 percent indicated they were not happy with their current compensation program.
- More than 55 percent indicated that their compensation program encouraged performance and sales. And, 51 percent indicated it differentiates between top and average performers. However, the respondents were nearly evenly divided as to how important this is - 47 percent indicated it is "very important" and 44 percent answered it is "somewhat" important.
- Some respondents indicated they tinker with their organizational and sales force compensation programs. Approximately 18 percent reported they either have changed the performance metrics or the calculation formulas in order to determine sales commissions. More than 28 percent answered they have made changes to the "quota/goal settings" that determine sales force compensation programs.
- However, even though less than a third of the respondents actually make any changes, more than 64 percent noted they reevaluate the effectiveness of their compensation programs at least one or more times per year.
- When asked whether their compensation program has become more complex or simplified over the last two years, half of the respondents indicated there has been no change whatsoever, while 31 percent said it has been simplified and 19 percent answered it has become more complex.

"What is interesting to me is the number of distributors considering making a change to their compensation program is so much higher than those that actually do make a change," says Lemieux. "It likely means they are [at least] somewhat dissatisfied with the program they have now, but just do not know if another program will work better."

Lemieux adds that he finds when many of Pro-Link's distributor-members network with each other, some of these issues are clarified and they actually do make a change - and the survey bears this out. Most of the distributors surveyed say they turn to other distributors for advice when it comes to sales force compensation programs.

**Some respondents answered all questions, while others did not. All answers were included in the final tabulations.*



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