

SALES COMPENSATION IN THE AGE OF NETWORKS

The CEO of a very big supplier to distributors (you may sell the company's products) pulled me aside recently to talk about his concerns about the future of his distributors: "I've always worried that some of them aren't going to make it; now I'm wondering about lots of them." He believes that rapid changes in the way customers want to buy could severely hurt traditional distributors who aren't adapting their selling model.

The "age of networks" is disrupting the way companies transact business with one another. The role of sales people and purchasing agents has already changed, and more turmoil is coming. Different types of sales people are needed to do different jobs (outside sales, proactive inside sales, technical sales) and varying sales compensation methods are appropriate.

If you're interested in how the age of networks is changing our world, read *The Seventh Sense*, a best-seller now on the reading list of many business leaders.

BUSINESS STRATEGY AND SALES COMPENSATION

A fairly large distributor lost half of its revenues over the past three years due to exposure to very weak customer segments. Despite painful efforts to reduce costs, the company's sales level dropped far below the break even point. What this company needed

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WHEN AND WHERE

Best-selling author, NAW Fellow and Adjunct Professor at Case Western Reserve University, Brent Grover will discuss "Sales Compensation Plans" **Sunday, Nov. 6 from 8:30 - 10:00 a.m.** and again from **10:30 - noon**.



GROVER



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most is rapid sales growth in new customer segments. How can the sales team become fired up about capturing new customers?

Another distributor lost a great deal of share at some of its largest customers as another distributor used internet sales to capture large chunks of online sales. How can the sales team become charged up about rebuilding sales?

Yet another distributor's sales held up well but profits dropped precipitously. The company didn't do a good job managing prices and tracking cost to serve and customer profitability. How can the sales team become excited about supporting an initiative to make more money on existing business by fixing margins and service costs?

It's very hard to execute strategic moves such as in the three above examples. How can you spur efforts to break into new markets, launch new products and new services or crack new customer segments? In a branch-based distributor, where a third of the employees are in the sales department, the sales team is crucial to the success of implementing a new strategy.

The sales compensation method is important, but having the right number of the right sales people, and quality sales leadership, is more important than the details of the compensation plan.

SALES GROWTH CONSTRAINTS AND SALES COMPENSATION

A small regional distributor realized that his market was too small to satisfy the company's appetite for sales growth. The sales force had penetrated their accounts well. No amount of additional sales horsepower was going to significantly grow the company's share within its present area. The company had to address the sales constraint (not enough good prospects) by moving into new geographic markets or by adding new products and services.

A different type of sales person may be needed to crack new accounts and push new programs. Sales "hunters" can jump-start sales growth. Customer maintainers can hold on to established business. They're unique people doing divergent jobs — and of course they almost certainly should be paid using different incentives. Changing the compensation plan alone won't make *farmers* into *hunters*.

OUTSIDE SALES, INSIDE SALES AND SALES COMPENSATION

According to recent research conducted by Dr. Jonathan Bein (see MDM), distributors' customers

in many industries say they want more attention from proactive inside sales reps and less contact with outside sales reps. Data from distributors such as Grainger show that many customers have already moved to interacting with their suppliers using electronic tools (web ordering, EDI, mobile access, phone support) rather than through outside reps.

Outside Sellers, Inside Sellers & Customer Service Reps Sample Comparison

	Typical Pay Range	Customer meetings per day	Months to become effective
Outside sellers	\$60,000 +	4-5	24-36
Proactive inside sellers	\$40,000 - 75,000	25-30	12-24
Reactive customer service reps	\$30,000 - 45,000	N/A	6-12

Many distributors are still trying to force outside sellers on their customers while failing to provide the options the customers prefer. Outside sellers are no longer the primary providers of information (technical support, sourcing, availability, pricing) nor are they the primary way customers place orders. Changing the sales compensation plan won't make some customers want to do business with outside sales reps.

SALARY, COMMISSION OR BOTH?

Complexity is the enemy of simplicity, yet even in the current era of "lean distribution," many distributors devise surprisingly complicated sales compensation schemes. For example, matrix compensation can be so confusing that sellers lose track of what they are earning and pretty much ignore the plan:

Matrix Compensation Plan Example (commission rate depends on GM% and GMS on each order)							
GM%	\$50-100	\$100-200	\$200-300	\$300-400	\$400-500	\$500-600	etc.
35%+	10%	15%	20%	25%	30%	35%	etc.
34%	9%	14%	19%	24%	29%	34%	etc.
33%	8%	13%	18%	23%	28%	33%	etc.
32%	7%	12%	17%	22%	27%	32%	etc.
31%	6%	11%	16%	21%	26%	31%	etc.
etc.	etc.	etc.	etc.	etc.	etc.	etc.	etc.

Straight salary and 100 percent commission, polar extremes, are not your only alternatives. In a blended plan, make enough of the total potential compensation variable to make it interesting for hungry sales reps. The success of incentives depends on demographics such as what stage of life the sales reps are in, whether the company is mostly selling one-time transactions or repeat sales, high-tech or low-tech products. Is offering an unlimited income opportunity a key recruiting tool for you?

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Are your sales people required to sign non-competition agreements? Does the company believe in open book management? Does your company measure customer operating profit or just gross margin?

Keep it simple. The variable portion, whatever it is, can't contain gimmicks and complicated formulas. Sellers on incentive plans need to see clearly how much their effort is going to earn for them. Bonus plans must focus on two or three things that the sales people have direct influence over if the incentive is going to affect their behavior. If you offer incentives, make sure the goals are reasonably attainable. If not, some sellers will just give up.

THE FINE DETAILS OF YOUR SALES COMPENSATION PLAN ARE PROBABLY NOT GOING TO DETERMINE THE FUTURE SUCCESS OF YOUR DISTRIBUTION BUSINESS. IT'S REALLY ABOUT WHO YOU HIRE AND HOW THEY ARE LED.

Be as consistent as possible. Frequent, wild swings in the sales compensation plan are disheartening to sales professionals.

No matter what your plan, use examples to ensure that the people understand how it works. Finally, never risk losing credibility with errors in computing commissions and bonuses.

SELF-DIRECTED OR MANAGEMENT DIRECTED

Jim Pancero tells a story about today's younger sales recruits who grew up with adult supervision over their after-school activities. They want and need sales training and a strong sales coach whom they respect. The baby boomer employees of days past (baby boomers who played on their own after school) didn't expect (or get) much training, coaching and oversight.

How many of your older sales reps will retire within the next five to seven years? How many are still on your payroll but have already retired from prospecting, cold calling and account development?

Depending on a 100 percent commission compensation plan to be the silent sales manager is endemic in distribution. The overworked sales manager, often with his own accounts to take care of, is responsible for watching over a large group of mostly autonomous salespeople. Sales reps who have always worked under the self-directed system are accustomed to deciding

which customers to spend time with, which products to focus on and what prices to charge. A new compensation plan won't change their lifelong habits.

CONCLUSION

The fine details of your sales compensation plan are probably not going to determine the future success of your distribution business. It's really about who you hire and how they are led. Before changing your plan, first identify what is constraining your profitable growth and recognize how the role of sales people is changing. Hire qualified sales leaders to run a management-directed sales team, and let them hire the right sales people to be on the team.



Segment the sales team to develop business in the most promising customer segments. Pay enough to attract the people you need and reward them well if they achieve their goals. **cs**

Brent R. Grover has written nine books and numerous articles on distribution management for industry publications. Brent is one of four NAW Institute Research Fellows and is an Adjunct Professor at the Weatherhead School of Management at Case Western Reserve University. His most recent book is *Mergers & Acquisitions for Distributors: Expert Advice for Buyers and Sellers*, published by NAW in October 2015. In Search of the Perfect Customer, published by NAW, is about cost to serve and customer profitability for distributors.

The best-selling book *Strategic Pricing for Distributors*, includes landmark research about best (and worst) distributor pricing practices. Brent's NAW books are available at www.nawpubs.com. Brent also wrote *The Little Black Book of Strategic Planning for Distributors*, published by Gale Media (www.mdm.com).

Brent is founding partner of Evergreen Consulting (www.evergreenconsulting.com), advisors to distribution channel distributors, suppliers and trade associations on pricing optimization, strategic planning, acquisitions and profit improvement. He can be reached at (216) 360-4600, ext. 101) by e-mail at brent@evergreenconsulting.com or via the website www.evergreenconsulting.com.

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