Sales Incentive Schemes

A recipe to remain relevant & avoiding the pitfalls

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Why Sales Incentive Schemes?

A hypothetical story...

- **70’s**: Joe starts a business... selling Encyclopedias
  - Sales agents & commission
  - .. More Agents, Supervisors & Managers
  - Hiccups.. Agents want a supplementary allowance
  - Business Grow, matures quickly

- **80’s**: Mature business... struggling with sales
  - Diversify to Stationary
  - Sales & Commissions shrinking
  - High agent churn...

- **90’s**: Joe diversify... selling personal computers /software
  - Outlets: Sales agents on a Sales commission scheme.
  - Business flourishes.. More Outlets, Agents, Supervisors, Managers
  - Competition tough.. Matures

- **00’s**: Joe now empowered... telephony: mobile, broadband, online sales
  - Walk in Outlets, Call Centre, Commissions ...

2012: Joe is now Executive Chairman ... of Joe Bloggs Industries on the JSE
What can we learn?

- **Businesses change...**
  - **Start-up = Typical Commission**
    - only variable pay
  - **Matured Business = Maturing reward system.. lower use of Commission only variable pay**
  - **New Ventures = Sales Scheme evolution required**

- **Employees also change...**
  - **Job role = Skills + competencies + knowledge + Experience**
  - **Aspirations = Growth +...+ Pay**

**Balance the Business Changes vs Employee Reward**

Sales Scheme =
A Recipe ... ?

Core Ingredients

1. Value proposition
   \[ \text{People} + \text{Results} = \text{Business Value} (R, \$, £, €) \]

2. Participants
   \[ \text{Which (levels & functions) of people / jobs?} \]

3. Schemes & Structure
   \[ \text{Which people} + \text{Which drivers} + \text{What Time Frames?} \]

4. Variable Pay Mix
   \[ \text{How much to Which Groups of people/jobs} \]

5. Performance Reward Curve
   \[ \text{How much to Which Groups of people/jobs at What levels of performance} \]

Evolution

1. Strategic (3Y view)
   - Which types of Schemes?
   - Which Participants to Which Schemes?
   - What Reward Strategy & Variable Pay mix per scheme?

2. Annual (or less)
   - Are target sets aligned to Business Plan?
   - Are schemes effective?
   - Are the rights groups of people rewarded?
   - Pay-out / administration / monitoring of changes
What Triggers Change.. ?

**Core Ingredients**

1. **Value proposition**
   
   People + Results = Business Value (R, $, £, €)

2. **Participants**
   
   Which (levels & functions) of people / jobs?

3. **Schemes & Structure**
   
   Which people + Which drivers + What Time Frames?

4. **Variable Pay Mix**
   
   How much to Which Groups of people/ jobs

5. **Performance Reward Curve**
   
   How much to Which Groups of people/jobs at What levels of performance

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**Fixes needed!**

Business Value Add remains stagnant... people comfortable (E.g.)
- Perhaps paying too much?
- Rewarding normal / stable business rather than growth?
- Order taker mentality rather than Deal maker?

Unhappy People (E.g.)
- Diminishing variable reward
- Misalignment in reward
- Too much effort/ too little $$$

Higher Turnover in Certain Jobs (E.g)
- Other Jobs reward better
- Competitor reward strategy

Company Structure / Business Strategy / Macro-economic factors
Which people/jobs should participate?

A hypothetical story... Joe's Broadband Business

Product Dev → Marketing → Sales

- Nat Sales Manager
  - North Sales Mgr
    - Region A Mgr
    - Region B Mgr
    - Region C Mgr
      - Branch 1
        - Sales P1
        - Sales P2
      - Branch 2
  - Coastal Sales Mgr

Us tooo...

What About Us?

We conceived the products...

If it wasn’t for our successful Marketing campaigns... they would not be selling?

If it wasn’t for our successful Marketing campaigns... they would not be selling?

We tooo...

If it wasn’t for our successful Marketing campaigns... they would not be selling?
## Considerations

Basic assumptions made on Participants, Drivers & Level of Driver measurement to keep it simplistic & illustrate concept.

Main point to bear in mind is the frequency of different schemes.

What should the frequency be for different groups of people/levels of responsibility?

### How many schemes?

<table>
<thead>
<tr>
<th>Participants</th>
<th>Drivers</th>
<th>Level</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Sales Mgr</td>
<td>Sales? Gross Margin?</td>
<td>National</td>
<td>?</td>
</tr>
<tr>
<td>North / South Sales Mgr</td>
<td>Sales? Gross Margin?</td>
<td>North/ South</td>
<td>✓</td>
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<tr>
<td>Regional Sales Mgr</td>
<td>Sales? Gross Margin?</td>
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<tr>
<td>Branch Sales Mgr</td>
<td>Sales? Gross Margin?</td>
<td>Branch</td>
<td>✓</td>
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<tr>
<td>Branch Sales Sup</td>
<td>Sales? Gross Margin? Sales Returns?</td>
<td>Department / Product</td>
<td>✓   ?</td>
</tr>
<tr>
<td>Sales Person</td>
<td>Sales? Gross Margin? Sales Returns?</td>
<td>Individual / Product</td>
<td>✓   ?</td>
</tr>
</tbody>
</table>
How much Variable pay?

- Evolution Considerations
  - Move from ‘Umbrella’ / Company wide scheme to Sales Scheme...
  - By implication High GP/Low Var Pay to Lower GP /Higher Var Pay

- How much Variable Pay?
  - Scheme type (Mthly, Q’ly, Annual)
  - Market Benchmark GP
  - Targeted Earnings on Var Pay
  - How much for Poor & Excellent Performance?
  - Implications of Topping up on Var Pay
  - Fixed Rand / Month vs % of GP / Basic / TCTC Approach?

- How to transition?

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**Example**

Salesperson: Current Mix = 10:1

- GP: R144k p.a. or 12k p/m
- Annual Target Incentive, 10% = 1.2k p/m

Market Data: 25th=10k; 50th = 12k, 75th = 14k

Problem 10% p.m = too little incentive.

Q: How do we fund bonus increase to be around a 30% Targeted Incentive (i.e. 10:3 mix)?

- Salary Freeze?
- Substitute & Match Annual Increase to Variable Pay?
- Other?
Which Performance Reward curve?

- **Different Approaches**
  - **Commission**: Pay From Rand 1, no target might mean no drive to maximise
  - **Stepped**: Only pay if you reached Target, below Target pays Zero. No incremental recognition
  - **Targeted**: Threshold, Target, Cap settings. Recognises fixed costs in business by not paying from Rand 1
  - Could have a combination of all...
  - You need to understand Implications...

- **Considerations ... pending frequency of Scheme**
  - Monthly, Quarterly...Annual
Which Performance Reward curve?

- Consider a Monthly or Quarterly Scheme. How to deal with Target setting on Quarterly basis?
  - Seasonality (abnormally high & low months or quarters)?
  - Are Targets Cumulative? Or reset every Quarter?
  - How do you prevent Overpayment Over the Annual Period...
  - Should there be a hold back... paid out at the end of the Fin year?
- How to deal with setting targets that are aligned across different schemes?
- Financial Modelling to determine the impact of changes made to potential payouts & company risk
Final Thoughts:

*Fundamental surgery or another plaster?*

Thank - You