

Compensation of Sales Force

Sales-force compensation is number one problem confronting every sales management. Compensation, here, stands for the monetary and nonmonetary reward given by the firm to, its sales-force in return for the services rendered. Though, compensation stands for contractual payments, there can be non-contractual and ad-hoc payments.

If sales-force recruitment and the training create and develop the manpower needs, the compensation aspect cares for its maintenance in the organization for longer period.

Significance of sound compensation

1. To attract best salesmen:

Gifted, talented and high caliber salesmen are available only at higher rewards, both monetary and non-monetary. Pay more and get the best. In fact, cheap is costlier. Therefore, costlier is qualitative.

2. To keep sales-force contented:

There is direct link between the payment made to the salesmen and their satisfaction. A person is supposed to perform his duties, look at his job well when he is contented or satisfied. Satisfaction being a state of mind depends on what he gets in monetary and non-monetary forms for his job or the efforts put in.

3. To have longing loyalty:

The aim of personnel management is not just to build competent sales-force but have a pool of selected persons expected to serve life-time for the nourishment and nourishment of the selling house.

Loyal and trust-worthy staff makes the organization rich, dependable and successful. Good pay-masters can expect this.

4. To have sound employer-employee relations:

Bickering, misunderstandings and drags arise mostly due to money matter partial or ill-treatment. The wheels of sales organization must not squeak. One such wheel is sales-force that can be kept in kilt if paid well and treated well. It is the sound compensation plan that greases the squeaking wheel for frictionless working.

Types of Sales Commission Plans

There is no one-size-fits-all sales commission plan. But there are many types of commission plans you can choose from. Here are some of the most commonly implemented types of sales commission plans used today:

1. Straight Salary/No Commission

This is the most common type of compensation plan used today in most industries. It's exactly as it sounds – you are provided with an annual salary with no commission. There may be an annual bonus attached to company performance. While it's easy for the company to structure payroll, it does little to incentivize employees to sell more.

2. Salary plus Commission

This is one of the most common types of commission plans used in the sales industry. Employees are provided with a base salary and are then paid a commission for each sale. They are incentivized to sell more to increase their pay. The commission rate can be a percentage or fixed fee per sale. Salary and commission structure varies by company.

3. Commission Only

Commission only plans do not have a base salary. Sales reps are only paid when they make a sale. There is no guaranteed income. If a sales rep doesn't make any sales, they do not get paid. While they are simple enough to manage, it can be challenging to attract salespeople to work in these roles. The reps who do take on these roles often have a 'sales at all costs' mentality, which could hurt your relationships with your customers.

4. Draw against Commission

This is a type of commission only plan. Employees are provided with a pay advance at the beginning of each pay period, which acts like a form of base pay. At the end of the pay period, this amount is deducted from the commission the employee has generated. It operates as a form of a cash advance. The main issue with this plan is employees could actually owe money if they don't sell enough.

5. Profit Margin

Sales reps are paid a commission based on how well the company is doing. Your salary can fluctuate up and down based on overall company performance.

6. Territory Volume

This is common in companies that take a team-based sales approach. Total sales for a given territory are tallied up at the end of the sales period and sales reps are paid commission equally. For example, if a company has 5 reps working in a territory and they sell \$100,000 of business during a pay period, each rep receives \$20,000.

7. Capped Commission

Sales reps are provided with a base salary and the opportunity to earn a commission. However, the commission amount is capped at a certain level. It limits how much commission you can make. While it makes it easier for companies to budget, once sales reps reach their cap, there is no incentive for them to keep selling.

8. Performance Gate

You will receive a higher commission rate the more you sell. There are a number of compensation tiers and you are rewarded for better performance.

9. Set Rate

You receive a specific dollar amount per sale. For example, you will receive \$100 for each sale of product A, and \$50 per sale of product B.

How to make an Effective Sales Compensation Plan?

From the above discussion, it is apparent that the behavior of a sales representative is directly affected by the sales compensation offers of a company. Certain elements of a sales compensation plan promote and develop positive sales behavior of sales representative which in turn will boost sales. To get effective results of a sales compensation plans and to encourage desired sales behavior following strategies can be used by companies.

i) A clear and simple sales compensation plan

A compensation plan must be clear and simple to understand. It should clearly mention what benefits employees will get for what type of services. It should not be complex, otherwise, it will fail to serve its purpose i.e. to encourage employees.

ii) Reward your employees

Design a sales compensation plan that pays noteworthy rewards, hence, enhances sales behavior of sales representatives. Also, make sure to provide rewards as early as possible. Employees get encouraged when they are appreciated for their efforts and they work harder if they are rewarded sufficiently.

iii) Provide solutions

Besides this, you should help your employees with the things they are struggling with and at the place of pointing out their mistakes provide them solutions to efficiently reach their sales target. It is in the hands of employers to develop certain behavior in the members of the sales team. Providing solutions rather than yelling at employees when they fail to meet their target can help managers to improve sales behavior and, thus, enhanced sales outcome.

iv) Consider the desired actions

Choose a commission plan that encourages good sales habits. Set up your commission plan to reward the types of actions that will help your business. For example, if you want your company to sell more of *package A* than *package B*, offer a higher commission rate for *package A*

v) Choose the right commission rate for the action/industry

Choosing the right commission rate is extremely important. It can also be very challenging. Commission rates can vary significantly based on your company, industry, and what you are selling. You also want a rate that will reward reps well but also not cut too much into company revenue.

vi) Pay regularly

Sales reps want to be paid consistently. Pay out commission regularly to encourage desired behaviors. Getting commission on each payment is motivation for your sales reps to continue to sell at a high rate.

vii) Built-in bonuses

Bonus payments are a great way to further reward your sales team during top sales periods. It gives them extra incentive to meet important sales metrics.

viii) Be upfront

It's important to be completely transparent with your sales team about how the commission structure works. Make sure they understand the goal and reasoning behind why the commission rates and structure are in place.