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Kjell and Company: Motivating Salespeople with Incentive Compensation (C)

Malmö, Sweden: June 2015. Thomas Keifer, Kjell & Company's CEO, met with Martin Knutson, the CIO, to discuss product returns. As of May 1, 2015, the company had changed its sales force compensation plan in an attempt to better motivate salespeople; specifically, the quota evaluation period had changed from a month to a day. Before launching the new plan, Keifer had decided to conduct a pilot study (field experiment), implementing the daily-quota plan at most company-owned stores, while also retaining the monthly-quota plan at the rest of the stores. The initial report indicated that the daily-quota plan had led to an increase in sales performance, mainly for low-performing salespeople.

Although Keifer was somewhat satisfied with the immediate results, he suspected that the increase in sales under the daily-quota plan might be due to salespeople's overaggressive selling, pushing customers to buy unnecessary products. Keifer feared that this might hurt the firm's profit in the long run, as those products would ultimately be returned. Also, such overaggressive selling could ruin Kjell's existing reputation for excellent customer service. Hence, Keifer had instructed Knutson to investigate whether the number of returned products had changed during the pilot study.

Contrary to Keifer's concerns, Knutson noticed that product returns had not changed much. In fact, under the daily-quota plan, returns had actually decreased for a majority of salespeople. Keifer was relieved by Knutson's report but wondered if he had overlooked something important in the data.

Table 1 The Change in the Returns-to-Sales (RTS) Ratio, by Segment

Type	% Change
Segment 1	0.71%
Segment 2	-0.24%
Segment 3	-0.99%
Segment 4	-0.77%

Source: Casewriter.

Note: Segment 1 represented the poorest past performers (bottom 25%), Segment 4 the best past performers (top 25%). The RTS ratio was calculated based on the number of returned products normalized by total sales. The change in the RTS ratio was computed as the difference from the control group. For example, if the RTS ratio of the treatment and control groups in segment 1 were 1.75% and 1.04%, respectively, the treatment group's pure change in the RTS ratio as a result of the treatment (the shift to a daily-quota plan) would be 0.71%.

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