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Guerrilla Sales & Marketing

Getting What You Pay For

LORI TURNER

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Lori Turner

You may have a well-differentiated product and a solid sales team and still not realize your company's sales potential. How can that be?

Your compensation plan may not encourage the right selling behaviors or, even worse, de-motivate your sales team.

A 2008 study by CSO Insights reported that 46.9 percent of sales reps receive 40 percent or more of their compensation as variable pay (commissions). If your sales team's compensation is mostly salary, it's probably time to re-evaluate.

Follow these steps to reward the right behaviors and boost the bottom line.

Step One: Establish a Total Compensation Target

First determine what your competitors are paying their top performers. Then identify what ideal total compensation target you want your top sales reps to reach – total of base and variable pay.

Ideally, your top sales reps hitting 100 percent of their targets should earn at or above what the market is paying.

Step Two: Determine the Compensation Mix

Your sales cycle, market maturity, and type of sales job all play a role in determining the ideal mix of base and variable pay. If your sales cycle is long (e.g., six months or a year), combine a high percentage of base pay with less variable pay or establish a salary guarantee to ensure new reps can make a living while building their sales pipeline.

For a shorter sales cycle, weight your comp plan more heavily toward commissions.

If you're in a new market with unknown potential, consider a low salary with high percentage of variable pay to limit your fixed expenses.

The type of sales job is also an important factor. Are you hiring "farmers" to maintain and up-sell existing customers or "hunters" to hunt down new business? Hunters are generally comfortable with high commission-based compensation plans, while farmers prefer a more predictable highly salaried compensation model.

Step Three: Decide on Performance Measures

Next, determine the performance measurements. Generally, in new markets, companies pay based on a percentage of total revenue a sales rep generates. In mature markets, previous sales benchmarks make it easier to set specific sales quotas.

Another way to approach performance measures is to establish a short list of goals which could be a combination of revenue generated, sales quotas met, new prospect activity, profit margins earned, or even volume of a

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PROPERTY SALES	44	250	2,436
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FORECLOSURE NOTICES	0	132	2,455
BUILDING PERMITS	0	455	6,492
BANKRUPTCIES	70	287	3,332
BUSINESS LICENSES	28	97	1,192
UTILITY CONNECTIONS	88	497	4,598
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specific new product sold. Prioritize and weight each goal accordingly.

Consider including a component for management discretion to reward performance factors that are hard to measure.

Step Four: Establish a Payment Formula and Parameters

In creating your compensation formula, consider setting a minimum commission threshold so sales reps earn their base salary before earning commissions.

You might also integrate a “stretch goal” – a sales level that, if exceeded, significantly increases the sales rep’s commission.

Step Five: Conduct Modeling

Finally, apply your proposed comp plan to your sales team’s performance during the last two years. How would they have fared?

If your sales team isn’t reaching sales targets, look at your compensation plan. A new compensation model could give your business the sales lift it needs and ensure you’re getting what you pay for.

Lori Turner is managing partner of RedRover Sales & Marketing, www.redrovercompany.com. You can follow RedRover on Facebook and Twitter.

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