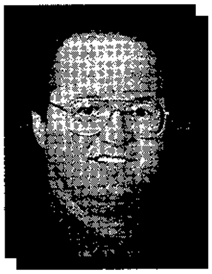
Well-Founded Compensation Plans Benefit Sales Associates and Your Bottom Line


David J. Cocks

Whether you're in the process of actively recruiting new candidates, settling the sales associate details of a recent merger or keeping your existing sales force motivated, David Cocks, CompensationMaster, offers these tips for effective compensation plans so they become your company's crowning glory—not a sticky wicket.

Research your competitors' offers. Don't assume you know what they are doing now. The more you know about what other companies are doing, the more effectively you can compare your own plan with new recruits and current associates who are hinting about jumping ship. "Many times you'll be able to show that a plan that sounds better really isn't. Good software can provide you with a graph to show the differences overall, as well as a chart that will let you look up their production level from last year to compare actual earnings," explains Cocks.

Revise your compensation plans after a merger or an acquisition. The natural tendency is to keep sales associates on the same plan they were on before. Yet the combined company may not have the same expense structure as the individual businesses did, so plans that worked previously may now be unprofitable.

To counter this, Cocks suggests broker/owners review and normalize the profit and loss statements (P&Ls) before the merger takes place. "Each company has different ways of structuring commissions and handling expenses. It is essential to look at the true profitability of each company before the merger, and then evaluate it again after the two businesses have been combined."

Analyze potential risks before offering salaries. "Traditionally, the largest cost for a brokerage is commissions, which are a 'variable' expense. This means they vary with revenue. In other words, if you have no revenue, you have no expense. When you offer salaries, you are converting a 'variable' cost to a 'fixed' cost. That means you have the expense whether or not you have any revenue.

"When you consider the financial implications of offering salaries, you need to first make sure your financial model is correct. If you're using the traditional method of calculating break-even, it probably isn't. Then you need to analyze the specific risks for your company, including such factors as the seasonality of your business and your ability to generate revenue when the market is slow."

Offer a variety of plans to meet different sales associate needs. Many broker/owners offer little choice in compensation to their sales associates. An experienced sales associate may find a 100 percent plan most appealing, while someone new to the industry might be more attracted by a salary or split with draws.

"Often brokers are reluctant to tackle the complexity of administering multiple plans," says Cocks. "Yet with the proper software, it's quite simple. For example, if you have salespeople who are just coming out of college or have been given the 'golden handshake' from another industry, a commission plan that allows you to pay a salary or a draw against commission can be a powerful recruiting tool. However, good salespeople will want the opportunity to earn a high reward. So you need to allow them to move into a full commission plan later."

Offering multiple plans also allows you to provide support services to the sales associates who want them without requiring all associates to share the cost. "Someone who just got her real estate license needs support services. These cost the broker money, so she should get a lower commission. As she becomes more successful, she can graduate to a different commission plan—one that offers a higher split—because she now requires fewer support services and costs less to have on board. If she eventually wants to run her own business within a business, you can offer a 100 percent commission plan where she only pays for the specific services she wants."

Be attuned to your sales force needs. About 75 percent of the time, when sales associates leave a company, they leave for reasons other than money, according to Cocks. "Sales associates can tell the difference between brokerages and are willing to pay for valuable services."

His advice: Listen to your salespeople. "When we design plans for clients, we try to find out what the sales force wants and design around that. Often small-dollar items have highly perceived value and are easily built into the compensation plans."

Base split levels on production, not longevity. "As sales associates get older, many decide to cut back on their work hours and no longer deliver the same high levels of production. But broker/owners never change their compensation structure. The assumption is that they've been with a brokerage for 20 years and should still get 70 percent, regardless of their production levels. Meanwhile, the broker is left trying to cover expenses with 30 cents on the dollar rather than 50," Cocks says.

Treat sales associates fairly (no favoritism). Everyone needs to pay their fair share; no one should be subsidizing anyone else, according to Cocks. "I've worked with many companies to turn this type of situation around, and the sales associates say it's like a breath of fresh air, because all they want is to be treated equally and fairly." MI&T

David J. Cocks, CRB, *is managing partner with CompensationMaster LLC in Charlotte, North Carolina. He can be reached at 704/541-9695 or david.cocks@compensationmasterusa.com.*