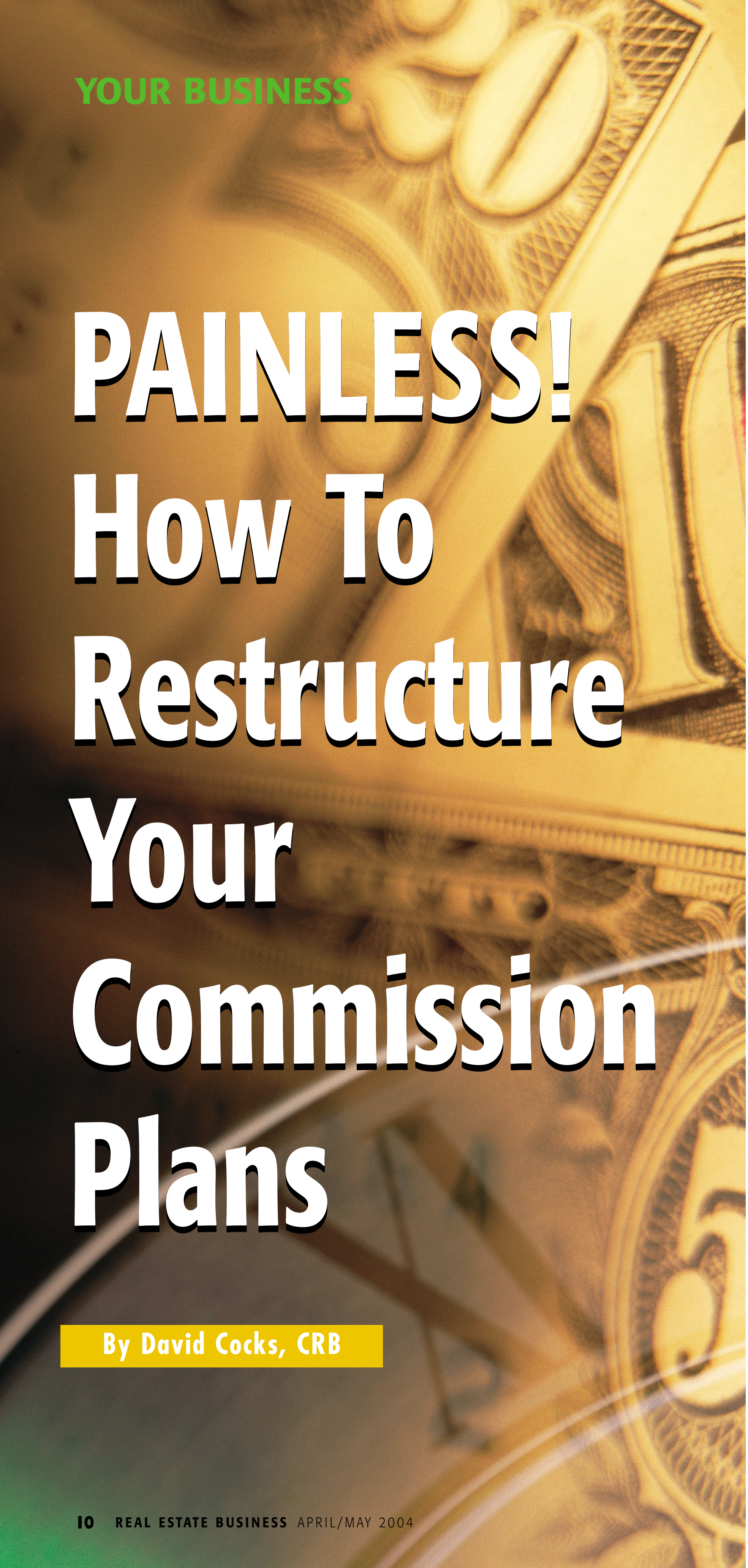

PAINLESS! How To Restructure Your Commission Plans

By David Cocks, CRB

I was talking to a broker the other day who was concerned about introducing new commission plans to her agents. Her firm has several hundred salespeople, and she was worried that changing their compensation structures would cause a lot of disruption.

I explained that if you follow best practices for introducing new plans, you minimize the disruption, retain virtually all of your sales agents, and get them powerfully motivated to sell even more.

Here is the process I use, which typically results in a 98% retention rate, a 30% increase in sales in the following year and significantly enhanced profitability.

Needs Analysis

Start by asking your agents, sales managers and support staff what they want. They're usually very forthcoming about what they like and what they don't like, what's important and what they don't care about, what they want changed and what they would prefer to keep. Even if you think you already know what they are going to say, take the time to consult with members of each group. You may be surprised by what you hear.

For example, top producers might be frustrated with plans that put a ceiling on their incomes. You can create a compensation plan with a lower base and a higher commission that rewards them for accepting more risk by giving them the opportunity to make more money.

Sales associates who have high fixed expenses (or trouble managing their money) might be willing to accept a lower total compensation package in exchange for the security of a higher base.

People who have health insurance through a spouse's plan may resent having to pay for coverage through your insurance plan. You can structure plans so people who don't want benefits don't have to pay for them.

The key to success is realizing that the same compensation plan isn't going to work for everyone. You'll get the best results if you create several plans, each meeting the needs of a different group, and then let your sales associates choose which they prefer.

Competitive/Market Analysis

Update your information about what commission structures your competitors are offering. Try to find out what salaries, base rates, draws, commissions, incentives, quotas, perquisites and benefit packages your competitors provide. If there are any new competitors, make sure you include them.

Then analyze what's happening with your market. Is it growing or shrinking? Is anything going on that will affect the demand for sales representatives?

Financial Analysis

Take a look at your business numbers in terms of revenue, expenses, profitability and the trends in these numbers. What are your goals? What are the goals of management staff?

If you are particularly geared to luring top-producing agents from other firms, find out what you can afford. You can't be aggressive about compensation without knowing how much your business can afford to pay your sales force. Analyze your expenses and revenue to find the maximum that you can afford to pay.

Design Plans

Using all the information you've obtained so far, formulate new compensation plans that meet your goals, address the desires of your sales force and are competitive for your market.

Ask each agent what he or she likes and doesn't like about the current compensation plan. You may be surprised by the answers.

You can choose to hire a professional to complete this step for you or do it yourself. If you are designing the plans, it helps to use software that lets you do what-if analyses so you can project the results of your changes. CompensationMaster's software, Commission Planner, is written specifically for this purpose, or you can use Excel.

Implementation Risks

Once the plans are designed, take a step back and look at the implementation risks. Break your sales force into a number of groups according to compensation level. Then anticipate the impact the changes you plan to make will have on each group.

Given the market conditions and competition, which agents are you most at risk of losing? For example, if top producers have been subsidizing the rest of your agents and you equalize the plans, are you at risk of losing mid-level producers?

Maybe not: If no competitor in town has a better offer for mid-level people, then it's not so likely they will leave you. But there might be a group of new recruits who are at risk.

Another part of risk analysis involves determining whether the plans can be administered. There are some accounting systems that can't handle certain types of plans. There's no point in implementing a plan that you can't pay on.

Run some test transactions through your accounting system. Calculate the results by hand and compare that with what your accounting system comes up with. Do they match?

Tweak Plans

Based on what you found out during the risk analysis phase, adjust the compensation plans to minimize risk and accommodate any accounting technicalities.

Introduce Plans

Once the plans have been finalized, it's time to introduce them to the managers, sales associates and support staff. Start with the managers, making sure they all understand the plans inside and out, because they are the ones who will have to explain them.

Then introduce the plans to the sales associates, explaining the rationale for the changes and showing where sales force concerns and requests were addressed. Sit down with each associate and show what he or she would have made last year on the new plan. If a choice is now being offered, explain the options.

This is the most important step: Spend the time it takes to make sure everyone involved really understands what's happening, why you're doing this and what it means for them.

When you follow this process for creating and introducing new compensation structures, you stay in control. You can project what your results will be ahead of time and manage the whole process with confidence. ■

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