

YOUR CFO FOR RENT *Gene Siciliano*

Summer 2010
Volume 7, Issue 1



CELEBRATING OUR  24TH YEAR

A Management Update from Your CFO for Rent

Get Your Sales Incentive Plan Organized for Maximum Profitability

By Gene Siciliano

Most experts seem to agree that misguided incentive compensation programs were near the heart of the country's financial crisis, the effects of which are still rattling around Europe as this is written. These pay plans encouraged aggressive individuals on Wall Street to over-sell the wrong products to the wrong people and pay themselves very handsomely in the process.

Everywhere I go CEOs complain that their sales compensation plans don't seem to work as they had hoped. Or they justify their plans and attribute the poor results to poor selling skills, unmotivated sales people, poor sales management, inadequate information systems, and of course the economy. The reality: all those things can contribute to poor sales team performance. But nothing sinks motivation faster than bad incentive pay practices. Some examples I've seen:

- Straight commission plans – the company pays X% on every dollar sold, regardless of whether sales levels are below, at or above where the company wants them to be. This enables each sales person to decide for themselves how hard they want to work with no incentive to work harder, even if the company

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needs more profit.

- Commission plans that pay the same commission rate for profitable items as for unprofitable or marginally profitable ones – often because the company doesn't know how to track the details, but sometimes because the company doesn't know which is which.

- Incentive plans that cap the

earning capacity of the salesperson, even though the profitability of sales above the cap is usually considerably more than sales below the cap. A really good salesperson wants to know the sky's the limit, even if there's no real chance of their reaching it.

- Incentive plans that aren't – instead some companies have bonus plans that make the salesperson wait for the quarter end or even a year end to get financial recognition. The reward is so far removed from the event that earned the reward that they're no longer connected in the salesperson's mind.

I've also seen company CEOs convert their entire sales force to straight salary so they could better manage the process, not knowing that they have guaranteed they'll have a truly mediocre sales force from then on.

If you combine one or more of these infamous incentive compensation mistakes with any of the non-compensation issues

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WESTERN MANAGEMENT ASSOCIATES

5777 West Century Blvd., Suite 1220
Los Angeles, CA 90045-5695
888-788-6534 • Fax 310-645-1092
gene@CFOforRent.com

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(Sales Incentive Plan

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mentioned above, you can have a seriously unproductive sales department and not know how to go about fixing it.

A bad incentive plan effectively converts “pay-for-performance” into “pay-for-nonperformance”. If your sales incentive plan doesn’t create a win-win-win (you, your salesperson and the customer) it is bound to fail sooner or later.

Here are 6 key features of a winning sales compensation plan:

1. Pay more for what you want to sell more of; pay less for what you want to sell less of – relatively speaking. If you pay the same commission rate for everything, you’re telling the world you don’t care which of your products they buy. If that’s true, fine. If it’s not, you’re reinforcing the wrong message.

2. Pay more for sales that bring more profit to your bottom line. Of course this

means you need to know which products have a higher profit margin. If you don’t know your margins, you have a cost accounting issue as well as a sales compensation issue. Both will kill your bottom line faster than you can say “Money Pit”.

3. No limits. Create powerful incentives for your sales force to keep reaching, keep selling, even when they’ve reached their personal income comfort zone. You do that by sharing the added wealth that comes from those extra sales – a bonus, a richer commission rate, a trip to Hawaii, whatever you truly believe will excite your salespeople to keep going full speed until year end.

4. Bring your incentive pay as close as possible in time to the event you’re paying for. The idea is to strengthen in the salesperson’s mind the relationship between the deed and the reward. You can say they’re related all you want, but if the pay comes months later, and the salesperson has gone on to put effort in other directions since then, the association becomes weak at best. Best strategy: pay commissions monthly, every month, and when adjustments are necessary due to breakage, returns or whatever, deduct those from current payments as they occur.

5. Bonuses are great for rewarding that extra effort – for the top salesperson of the month, quarter, or year; for the person opening the

most new accounts during a new accounts campaign, etc. These are payments in addition to commissions that reward for exceptional success, not for routine performance and certainly not in lieu of sale-by-sale commissions.

6. Have a sales incentive plan your sales team can understand, and explain it to them. If they don’t understand it, they’ll assume they’re being taken advantage of to the company’s benefit. If you change the plan, take pains to explain the benefits to them of the change, and how they can best take advantage of the new features. They’ll figure it out anyway, and you’ll lose some trust in the process unless you’re up front with them.

more money can never compensate for poor management, and that’s very true. If the person or persons managing your sales force is not good at it – doesn’t follow up, doesn’t train, doesn’t create a motivating environment, doesn’t hold subordinates accountable – no amount of clever compensation plan design will make up for that. By contrast, put a good incentive plan and a good product line into the hands of a good sales manager and you will see sparks fly as the performance climbs. The difference between your weak salespeople and your strong ones will become dramatically evident,

*...see sparks fly
as the performance climbs.*

OK, having said all that, I need to say a few words about one of the “other” issues mentioned above, namely sales management. I’m sure you’ve heard that

enabling you to very quickly build a world class sales organization. With world class results. Think about that. Then call us if you’d like help.

“The secret of success in life is for a man to be ready for his opportunity when it comes.”

– BENJAMIN DISRAELI



Your CFO for Rent

Gene Siciliano, CMC, CPA, is an author, speaker and financial consultant who works with CEOs and managers to achieve greater financial success in a dramatically changing economy.

As “Your CFO For Rent” and president of Western Management Associates, Siciliano has spent more than 24 years helping his clients build financial strength and shareholder value through applied knowledge and process improvement. His bestselling book, **Finance for Non-Financial Managers**, (McGraw-Hill, 2003) is available in bookstores and online. Gene’s new book, **Financial Mastery for the Career Teacher** (Corwin, 2010) is a must read for educational professionals. More information and free articles are available at www.GeneSiciliano.com.