

The Sales Compensation Dilemma

Suburban Newspaper Association

Presented by Larry Maynard

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About Larry Maynard

- A 40 year newspaper and advertising executive
 - 25 years with Copley Newspapers
 - 7 years with Newspaper Services of America
 - 8 years running my own consulting company
- Worked with and/or consulted with more than 200 newspapers
- A unique perspective of the operational, sales and advertising buying process
- Proven ability to identify and resolve problems and challenges in a positive and unthreatening manner

About Larry Maynard

- That being said:
 - I'm a 'blocking and tackling' guy
 - I'm not a 'pie in the sky' or 'out of the box' thinker
 - I believe the two worst words are 'unlimited potential' – *especially when discussing sales*
- Today we'll discuss
 - Whether today's programs are incentive programs, *or are they disincentive programs*
 - How to position compensation programs to be in line with the employee behavior you desire
- *Hopefully each of you will take away some ideas you can act upon today!*

Today's Business Reality

- Your business has changed dramatically, and continues to change
- Your advertisers business has changed dramatically, and continues to change
- The skill sets and abilities required of today's newspaper product sales associates has changed dramatically, and continues to change

Sales Compensation Dilemma

- Fact #1 – nothing impacts the performance of your sales organization more than your compensation program
 - Positively
 - Negatively
 - All sales people will ‘follow the money’ by (consciously or unconsciously) selling based on these priorities:
 - What they get paid on
 - What they get paid the most on
 - What they find easiest to sell

Sales Compensation Dilemma

- Fact #2 – the ideal plan is one where the employee and company equally benefit based on sales success
- Here’s an interesting question: Is your plan...
 - An incentive plan
 - A bonus plan
 - Just a part of their regular (i.e. expected) compensation
 - *How does your paper rank on this list?*

Sales Compensation Dilemma

- Fact #3 – the best incentive plans are based upon the following:
 - The sales behavior you want from them
 - Today's business climate
 - If your plan hasn't been adjusted in the past 12 months how relevant is it in today's business environment?
 - If your focus is...
 - Total sales – then incent them on this
 - And then accept whatever they sell
 - More multimedia – then incent them on this with the appropriate emphasis on each category
 - New business – then incent them on this

Sales Compensation Dilemma

- Fact #4 – a compensation plan must be simple to understand and administrate
 - After a sales you want the rep to know when they walk out of the store 'Wow, I just made \$XX'
 - This motivates them to the next call, to make one more call, etc.
 - If a goal is involved you want the rep to know when they walk out of the store 'Wow, I'm \$XX closer to my goal'

Sales Compensation Dilemma

- Every manager spends a significant amount of time
 - Projecting potential sales by category
 - Analyzing the growth potential of most accounts
 - Researching the competition for weaknesses
- Every publication invests a significant amount of time, resources and money into sales training
 - Skills – prospecting, cold calling, closing, etc.
 - Product knowledge
 - Competition
 - The Industry in general

Sales Compensation Dilemma

- We search for, and hopefully hire, the best sales candidates
 - Through rigorous testing, reference checks, skill assessment, product knowledge, relevant experience, etc.

Sales Compensation Dilemma

- Do we approach sales compensation in the same manner? Do we:
 - Carefully analyze the sales opportunities for each of today's revenue channels
 - Clearly layout the sales results (i.e. behavior) we desire from each individual rep
 - Take the steps necessary to ensure the compensation plan is aligned with these factors

Sales Compensation Dilemma

- What is the state of most newspaper compensation programs?
 - They're a hybrid of programs established long ago
 - Tweaked, adjusted, added to, layered, spiffed, etc.
- When we need to motivate the staff, or when we add a new product, we usually just add another layer to the comp plan
- But we need to ask ourselves:
 - Is this driving the sales activity and behavior we seek?
 - Is this rewarding the sales people for the activities that have the most value?

Base, Draw and Commission

- Most newspapers have a variation of one the following compensation programs
 - Base plus commission – relatively low amount, commission is paid on top of base
 - *How many on today's call have something like this?*
 - Draw/commission – relatively low weekly draw is paid, draw is an advance towards future commissions and is deducted from monthly commission payment
 - *How many on today's call have something like this?*
 - 100% commission – self-explanatory
 - *How many on today's call have something like this?*

Base, Draw and Commission

- Before we discuss the pro's and con's of each, let's discuss how they impact the employee search and retention process
 - We all agree today's advertising sales rep needs more advanced skills than 20 years ago, or even 10 years ago
 - Ours is not an attractive industry that has candidates saying *'man, what a great job that would be'*
 - Ad sales rep isn't high on the *'must have that job'* scale
 - *Though unemployment is higher than before, who on the call has a long list of strong and viable candidates for today's sales positions*

Base, Draw and Commission

- How does your current compensation program impact your hiring and retention process
 - When we mention things like ‘unlimited earning potential’, ‘relatively low base’, ‘relative low draw’ or ‘100% commission’ what type of candidates do we attract?
 - For sales reps on staff, how does this program affect their retention as employees
 - Do they look at the sales potential in aggregate
 - Or do many look at the guarantee (base or draw) when comparing to other positions

Base, Draw and Commission

- Many newspapers lose good sales people to jobs with a higher guarantee, but lower total earnings
- *Has something like this happened to you?*
- *Why do you think that occurs?*
- There is no simple solution
 - Every market and situation is different
 - But if it's a factor in your situation you should take steps to improve the situation

Base, Draw and Commission

- There are some key market-specific factors you need to consider when reviewing this
 - What compensation program do you need to offer to attract and retain the number and quality of employees you seek
 - This is directly impacted by other opportunities candidates with these skill sets have in your market
 - If there are a lot of opportunities, you need to be more aggressive with your base guarantee
 - If there are more candidates than possible positions, you can offer less guarantee and more potential upside based on performance

Base, Draw and Commission

- We must keep in mind the following
 - There are certain positions within every business that require unique skills and abilities
 - You will not achieve your sales goals without sales reps that have the skill and ability to perform at the level required to do so
 - Your compensation program directly impacts your ability to attract and retain sales personnel
 - For most newspapers 75% to 80% of their total revenue comes from advertising – don't you want the right people leading that charge?

Base, Draw and Commission

- If you look at sales compensation solely as an expense item you will fail
- That being said, given today's economic climate we must balance our sales needs with the realities of our cost structures
- ***The answer isn't paying sales people more***
 - ***It's making sure the compensation program is providing us with the best sales assets***
 - ***It's making sure the incentive program is driving the sales behavior and results we desire***

Commission Plans

- Every sales organization has some form of a commission plan
- The purpose is to focus sales personnel on the products and services we want them to sell
 - The higher our need for them to sell a product, the higher the commission potential
- That was relatively simple when newspapers had a limited line of products
- How's that look for our product lines today?

Commission Plans

- The complaint I hear most often is *'my sales people just aren't selling the products I need them to sell'*
- In most cases when I review the situation there are two impact variables:
 - The reps are selling what they are getting paid on
 - The reps are selling what they're most comfortable with
- Our goal today is to solve the 'not selling what I need them to sell' situation

Commission Plans

- Remember Fact #4 – a compensation plan must be simple to understand and administrate
 - After a sales you want the rep to know when they walk out of the store 'Wow, I just made \$XX'
 - This motivates them to the next call, to make one more call, etc.
 - If a goal is involved you want the rep to know when they walk out of the store 'Wow, I'm \$XX closer to my goal'
- *Is this how your plan works today?*

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- Now let's remember Fact #2 – the ideal plan is one where the employee and company equally benefit based on sales success
 - Let's discuss how to achieve that goal

Commission Plans

- Program example #1 – the 'pay on an aggregate of everything sold' model
 - Positives
 - Simple for you to administrate, measure and pay on
 - Simple for the reps to understand
 - Motivates in that reps know how much they make from every sale
 - Negatives
 - Reps will sell what they're most familiar or comfortable with
 - Does not take into account individual revenue channel goals the company has (ROP, inserts, online, special sections, niche products, color, etc.)

Commission Plans

- Program example #2 – the ‘we have a different plan for each revenue channel’ model
 - Positives
 - Gives the appearance of bringing focus to each revenue channel
 - Negatives
 - Difficult to administrate, measure and pay on
 - Difficult for reps to understand, can be confusing
 - Leads to sales conflict – how do I prioritize, how much emphasis do I put on each channel, etc.
 - Can be frustrating for managers and reps

Commission Plans

- Program example #3 – we’re 100% commission
 - Positives
 - You only pay on what is sold
 - It attracts reps with high close potential
 - Negatives
 - Paying equally on what is sold leads to selling whatever they can
 - High close potential reps works best in a high turnover business
 - Newspaper customer relationships tend to be long-standing
 - Good customer service is essential to retention
 - These reps tend to job-hop frequently for a better opportunity

Commission Plans

- Program example #4 – we're primarily all base, little or no commission
 - Positives
 - Tend to have low rep turnover
 - Tend to be best at customer service
 - Negatives
 - Tend to be comfortable
 - Will pre-judge versus open-minded selling
 - Very territorial and protective of their accounts
 - Not good at selling new products
 - Not much incentive to sell more

Recommendations for a good plan

- Step 1 – determine what program will work best for you
 - Base plus commission
 - Draw plus commission
 - 100% commission
- Step 2 – determine if a goal-based program is what you need to succeed

Recommendations for a good plan

- Step 3 – if so, determine your strategic goal
 - Something like – achieve revenue goals set for each sales channel (ROP, inserts, online, special sections, niche products, color, etc.)
 - Actually, your boss already set this strategic goal for you
- Step 4 – determine the role each rep plays in achieving those revenue goals, by sales channel
 - Every account list offers a different level of revenue potential for each channel
 - The goals cannot and should not be equally distributed, they should be based on account potential

Commission Plans

- But many people say *‘Goal setting is difficult, it’s subjective, it’s confrontational with the reps and it isn’t necessary’*
- Setting goals by sales channel for your department, and then by sales channel by rep, is vital to your success
- Every person, from rep to manager, needs to be clearly focused on the revenue goal for each channel
 - If they’re not then the only way you’ll reach your department goals is by accident, not by design or plan

Commission Plans

- What should the goal categories be?
 - ROP
 - Inserts
 - Special Sections
 - Non-subscriber products
 - Niche products
 - Online
 - Other categories unique to your business

Commission Plans

- OK Mister 'Know-It-All', how we should set goals
 - Review every reps account list
 - Whenever possible run revenue reports by rep, by sales channel, for:
 - The same month the previous year (historical reference)
 - The most recent three complete months (a more relevant reference based on recent economic changes)
 - Compute the percent each rep contributed to each category
 - The same month the previous year
 - The most recent three complete months
 - Determine the percent each rep should contribute to the category in the upcoming month
 - The aggregate should exceed the total goal (+ at least 10%)

Commission Plans

- Again, the compensation plan needs to be 100% in line with the sales behavior you desire
- If you have company revenue goals by sales channel
 - Do you want to 'maybe reach the goals by accident or luck?'
 - Or do you want a solid plan that will drive the sales behavior important to your business?

The Compensation Dilemma

- General discussion

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- If there are any questions, or if you'd like to discuss how I can help your business, contact me at:
 - lmaynard@ngmpartners.com
 - 630/430-8905