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C.8

C.8 Compensation of Salespeople

MOTIVATION OF THE SALES FORCE

The compensation of salespeople is an important element in motivation of the sales force. Sales force motivation, like **recruiting** and **selecting sales personnel,** is one of the responsibilities of sales managers in carrying out the personal selling program of a business.

What Is Sales Force Motivation? **Sales force motivation** is "the amount of effort the salesperson desires to expend on each activity or task associated with the job."[1] These tasks could include prospecting for new accounts, making sales presentations to existing accounts, or providing service and information to customers and prospects.

Motivation of the sales force is particularly important because of the nature of the selling job. Salespeople tend to work in the field, alone and largely unsupervised. This means that they have to be self-starters. They also face rejection by customers and the aggressive tactics of competition. To maintain optimism, persistence, and aggressiveness in such a position calls for a high level of individual motivation.

Walker, Churchill, and Ford, using expectancy theory, have developed a widely quoted model of sales force motivation.[2] According to the model, a salesperson's motivation is a function of three variables: expectancy, instrumentality, and the valence for rewards.

- *Expectancy.* The salesperson's perception that an increase in effort will lead to improved performance on some element of the job is termed **expectancy.**
- *Instrumentality.* The salesperson's perception that improved performance on some element of the job will lead to an increase in some reward is termed **instrumentality.**
- *Valence.* The desirability of receiving an increase in a particular reward as a result of improved performance is termed the **valence** for that reward.

The model suggests that if salespersons think that increased effort will result in better performance and if they perceive that the improved performance will be rewarded and if the reward is one that they value highly, then they will be motivated.

What does this suggest to the sales manager attempting to motivate the sales force?[3] First, the sales manager must strive to create high and accurate expectancies, meaning a high willingness to work on improved performance, and an accurate perception of the kind of effort required to improve a particular kind of performance. Second, the sales manager should also strive for high and accurate instrumentalities. Salespeople must

[1]Gilbert A. Churchill, Jr., Neil M. Ford, and Orville C. Walker, Jr., *Sales Force Management,* 2d ed. (Homewood, Ill.: Richard D. Irwin, 1985), p. 435.

[2]Orville C. Walker, Jr., Gilbert A. Churchill, Jr., and Neil M. Ford, "Motivation and Performance in Industrial Selling: Present Knowledge and Needed Research," *Journal of Marketing Research* 14 (May 1977), pp. 156–68.

[3]See Churchill, Ford, and Walker, *Sales Force Management,* pp. 434–40.

be given confidence that improved performance will lead to rewards and must understand what rewards will result. Third, the sales manager must understand the valences or attractiveness that alternative rewards have for the sales force. In designing the reward system for salespersons, the sales manager must first determine which rewards they most value.

Factors Influencing the Attractiveness of Rewards. A principal tool used by the sales manager in maintaining and directing sales force motivation is a system of rewards. Rewards serve to raise motivation and to direct efforts toward achieving the objectives of the personal selling program.

There are many individual forms of rewards available for use with the salesforce, but they can be grouped into two classes. The lower-order rewards (also termed extrinsic) include job security and financial incentives such as salary, commissions, and bonuses. The higher-order (or intrinsic) rewards include such things as promotions and recognition. This classification follows Maslow's hierarchy of needs theory that suggests that people will seek first to fulfill the lower-order needs (by seeking pay and security) and only when they are fulfilled will they pursue higher-order needs (by seeking promotion and recognition).[4]

For many years, the prevailing belief was that financial incentives were of overwhelming importance in motivating the sales force. While there is no doubt of the incentive value of financial rewards, more recent research has shown that other forms of reward can also be effective in some circumstances. The attractiveness of alternative salesperson rewards varies with the person and with the situation. Some of the factors influencing reward attractiveness or valences are considered below.

- *Level of Satisfaction.* Reward attractiveness is influenced by a salesperson's level of current satisfaction.[5] Following Maslow's hierarchy of needs theory, the less satisfied a salesperson is with current lower-order rewards like pay, the greater value he or she places on them. However, the greater their satisfaction with lower-order rewards, the greater value they place on higher-order rewards like promotion and recognition.
- *Career Stage.* As salespeople move through career stages and gain greater job experience, they are believed to be more motivated by lower-order financial rewards.[6] This is believed to occur because if a salesperson reaches later career stages still as a salesperson, he or she realizes his or her inability to progress and concentrate instead on lower-order rewards like making money. By contrast, salespersons early in their careers will be more motivated by higher-order rewards like promotion and recognition.
- *Demographic Characteristics.* Demographic characteristics influence the attractiveness (valences) of alternative rewards.[7] Men place greater value on pay and security than do women. Those with families and household responsibilities also place greater value on pay and security. This is apparently true because such persons have greater financial responsibilities. The value placed on higher-order rewards appears to increase with education. Those with more education appear to have higher career and personal goals.

Other Factors Affecting Motivation. Despite the importance of rewards as sales manager tools, it is clear that there are other factors that also affect sales force motivation. Three of these factors are leadership style, the characteristics of the job, and environmental conditions.

- *Leadership Variables.* The leadership behavior of supervisors can be used in the motivation of salespeople, particularly in building motivation for higher-level rewards.[8] Leadership

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[4]A. H. Maslow, "A Theory of Human Motivation," *Psychological Review* 50 (1943), pp. 370–96.

[5]Neil M. Ford, Orville C. Walker, Jr., and Gilbert A. Churchill, Jr., "Differences in the Attractiveness of Alternative Rewards Among Industrial Salespeople: Additional Evidence," in *Sales Force Performance*, ed. Neil M. Ford et al. (Lexington, Mass.: Lexington Books, 1985), pp. 213–30.

[6]See William L. Cron, "Industrial Salesperson Development: A Career Stages Perspective," *Journal of Marketing* 48 (Fall 1984), pp. 41–52.

[7]Ford, Walker, and Churchill, "Differences in Attractiveness," pp. 213–30.

[8]Pradeep K. Tyagi, "Relative Importance of Key Job Dimensions and Leadership Behavior in Motivating

techniques shown to be effective in salesforce motivation include representing the problems of salespeople to management, building trust and support with salespeople, and seeking the ideas of salespeople.

- *Job Characteristics.* The structure of the salesperson's job can be used to influence motivation.[9] Salesperson motivation and job satisfaction are thought to be positively related to five job dimensions. Using a variety of skills, completing a whole, identifiable task, and working on significant tasks all contribute to the meaningfulness of the work. Jobs structured to permit freedom and discretion generate feelings of personal responsibility. Finally, jobs structured to provide feedback on performance effectiveness are more highly motivating.
- *Environmental Conditions.* Environmental conditions, because they constrain a salesperson's perceived and actual ability to perform, influence motivation.[10] Environmental constraints might include variations in sales territory potential, competitive strength, and quality of the products in the salesperson's line.

Define selling objectives

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Determine salesforce characteristics

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Determine compensation level

↓

Select compensation method

↓

Determine incentive pay format

↓

Integrate with nonfinancial rewards

FIGURE C.8-1

Process for Designing a Sales Compensation Program

SELECTION OF A SALESFORCE COMPENSATION METHOD

Experienced sales managers have long concurred that pay is the most important motivator of the sales force. Research findings, although not unanimous, tend to support field experience, finding that salesperson preference for pay as a reward holds even for older, more experienced salespersons.[11] Clearly selection of a compensation method is a key tool in any program to motivate the sales force.

Process for Designing a Sales Compensation Program. The sales compensation program must be designed to meet the selling requirements of the company and the reward needs of the sales force. A suggested process is described below and summarized in Figure C.8-1.[12]

- *Define Selling Objectives.* The first step in designing a sales compensation program is to establish what personal selling is to accomplish. The **salesperson's tasks** should be specified and define the relative effort to be allocated to servicing current customers, prospecting for new customers, and to nonselling tasks. Products to be emphasized or new products to be introduced should be determined. Any weaknesses in the personal selling program that need to be corrected should be identified. Selling objectives should be set in each of these areas. The compensation program is designed to provide incentives to reach these objectives.
- *Determine Sales Force Characteristics.* The compensation program must be designed to meet the needs of the sales force as well as the needs of the company. A profile of sales force demographics, experience, income history, and performance record will help reveal sales force needs. A survey of sales force attitudes toward different forms of rewards and toward the cur-

Salesperson Work Performance," *Journal of Marketing* 49 (Summer 1985), pp. 76–86.

[9]Richard C. Becherer, Fred W. Morgan, and Lawrence M. Richard, "The Job Characteristics of Industrial Salespersons: Relationship to Motivation and Satisfaction," *Journal of Marketing* 46 (Fall 1982), pp. 125–35.

[10]Churchill, Ford, and Walker, *Sales Force Management*, pp. 445–47.

[11]See, for example, Ford, Walker, and Churchill, "Differences in Attractiveness," p. 227.

[12]For alternative processes, see Churchill, Ford, and Walker, *Sales Management* pp. 457–84, and Robert W. Kosobud, "Compensating Sales Personnel," in *Handbook of Modern Marketing*, 2d ed., ed. Victor P. Buell (New York: McGraw-Hill Book Co., 1986), pp. 68–69.

rent compensation system is easily conducted and yields useful information.

- *Determine Compensation Level.* It is essential to determine the level of total compensation that the company must provide in order to attract and retain good salespersons. This information is sometimes available from trade associations, through trade periodicals, or from personnel consulting firms. If not available through these sources, the firm should conduct a salary survey among firms in the same or comparable industries that are competitors for sales personnel.
- *Select Compensation Method.* Alternative compensation methods include salary, commission, or a combination of salary plus commission or bonus. The method selected should be one that will satisfy the needs of the salespersons and motivate them toward accomplishment of the firm's selling objectives. Criteria for evaluating alternative compensation methods are presented in the next section.
- *Determine Incentive Payment Format.* If the compensation method is not one of straight salary, but includes an incentive component, the details of the incentive component must be determined. On what will incentive be paid? at what rate? How often will it be paid? Will there be a ceiling? a draw against commissions?
- *Integrate with Nonfinancial Rewards.* Although nonfinancial rewards are not usually included within the compensation program, the relationship between the two should be planned. Salary scales should be established to assure that promotions are accompanied by appropriate compensation adjustments. Timing of compensation changes should be carefully considered in relation to award of nonfinancial incentives.
- *Communicate the Program.* The effectiveness of a compensation program in motivating and directing sales force behavior is dependent on the sales force's understanding the program. The program must be clearly communicated to salespeople so that they know what behavior leads to what reward.

Evaluation of Alternative Compensation Methods. The three compensation methods in wide use are straight salary, all commission, or a combination of salary and commission. Salary plus commission (or bonus) is the most popular of these. The choice among compensation methods involves a tradeoff between control and motivation. Salary provides control while commission provides motivation. In deciding on a compensation plan, the manager should compare the selling objectives of the firm and the needs of sales force members to the characteristics offered by the alternative compensation methods.

- *Straight Salary.* Payment of a fixed salary provides management with maximum control over salespersons' activities because there is no conflict between earnings and fulfilling the sales managers' directions as there may be under a commission system. Because of this, straight salary is appropriate when the sales force is needed to perform activities that will not result in immediate or measurable sales such as account servicing and counseling, customer training, missionary work, or team selling.

  To the salesperson, straight salary offers security, promotes loyalty, and motivates him or her to take direction from the sales manager on whom the salesperson is dependent for annual salary increases. Straight salary plans are easy to administer and easy to understand. However, they do make selling costs fixed rather than allowing them to vary with sales results.
- *Straight Commission.* Commission offers salespersons a percentage of the sales that they make, tying their income to the results of their own efforts. Straight commission plans often include a **draw,** which allows salespersons to take an advance against future commissions during periods of slow sales.

  Straight commission maximizes salesperson incentive, relating pay directly to personal selling efforts. Salespeople on straight commission are motivated both by the distinct possibility of failure and by the opportunity for extraordinary income if they are highly successful. Straight commission offers the salesperson neither security nor income stability, but average earnings tend to be higher. Straight commission is appropriate where the salesperson is devoted predominantly to selling rather than nonselling tasks, in competitive situations where aggressive selling effort is needed, and where one-time sales rather than long-term customer relationships are anticipated. Especially important for cyclical businesses, use of straight commission converts selling costs into variable costs that decline when business is bad.

The major disadvantage of straight commission is that it gives management less control over salespersons' activities. Salespeople are reluctant to accept direction that distracts them from selling activities on which they earn commissions. Commissions should be set by activity and by product so that the salesperson's incentive conforms to the firm's selling objectives. Commission salespersons will tend to be short-term oriented, slighting customer servicing, relationship building, and promotional activities. Commission plans tend to build little salesperson loyalty, but result in incompetent salespersons quickly weeding themselves out. However, during weak sales periods, turnover of salespersons may become excessive. Wide differences in income among salespersons are likely to result from straight commission, but this may be fairer than straight salary plans where the strong salespersons carry the weak.

- *Combination Plans.* There are many variations possible in combination plans, but all provide a base salary plus some form of incentive payment in the form of commission or bonus. The salary base provides the salesperson with stability and security while affording managers a degree of control over salesperson activities. Combination plans tend to result in a more stable sales force than straight commission plans and may make recruiting easier.

  Combination plans are a compromise in the control versus incentive tradeoff. To be effective, the right combination of salary and incentive must be found and the incentive portion must be carefully directed to the selling activities desired. The result is likely to be a rather complex program, one that is difficult to communicate and understand.

  Combination plans may be salary plus commission, salary plus bonus, or both. The split between salary and incentive varies widely, but in one recent survey an 80:20 salary to incentive split was most popular.[13] If commission is used with salary, the commission should be carefully tailored to the company's selling objectives. Commission rates can be tailored to particular product categories, to product margins, or to seasonal sales. Sometimes commissions are paid only on sales over a preestablished quota. Bonuses are periodic incentive awards not directly linked to sales performance. They are more flexible than commissions and can be awarded for achievement of goals other than short-term sales results. It is important, however, that bonuses be firmly linked to measurable goals. Otherwise bonuses will be perceived as arbitrary and unfair and will lose their incentive effect.

- *Other Financial Incentives and Payments.* Sales contests are widely used as incentives beyond normal compensation. They can be designed to give special incentive to sell particular products, to open new accounts, increase displays or other short-term objectives. Sales contests often tie in to sales **promotions** being run for particular products (see GLOSSARY entry C.36). The basic elements of a successful sales contest include well-defined objectives, simple rules, short duration, goals attainable by most salespersons, and inclusion of family members.[14]

  Provision must also be made for payment of salespersons' travel and entertainment expenses which, in the case of a field sales force, can be equivalent to half or more of compensation costs. Most firms fully reimburse travel expenses and entertainment costs. To maintain control, strict policies must be established to define expenses that are reimbursable.

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[14] Ibid., pp. 118–19.

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