quoins2pixels
An exclusive publication for the Members of The Printing Industries Alliance
Volume 2, Issue 8

Commission on Value Added

The ideal approach would be to pay the sales reps a percentage of contribution to overhead (Sales less all Variable Costs - labor, materials, outside purchases). However, this would sensitize their compensation to variations in plant performance beyond their control. As a practical matter, a percentage of value added is preferable as it achieves the same result and is easier to understand. "value added" is the difference between the invoice to the customer and the actual cost of materials and outside purchases.

If the firm has decided to make a change in its system, implementation must be carefully planned if disruption of the sales force is to be avoided. First, the rates used should not effect a global change in the reps' compensation. If they collectively continue to sell the same jobs for the same prices, their overall pay will not change. What the firm is trying to do is to get them to sell more jobs for as much as the customers will pay with the goal of fully utilizing plant capacity which will maximize the firm's profits. For example, if the reps are now being paid 8% of gross, the value-added equivalent would probably be about 12%. This can and should be tested by looking back at a year's sales data and identifying gross sales and value added. This is relatively easy as materials and outside services are usually easily identified.

Then the new system should be explained to the sales reps not as an attempt to cut their pay but to make both them and the firm better off by selling more work at the most that the customers will pay. It is also wise to implement the change with a transition period of at least six months where the commissions will be computed under both the old and new systems and the rep will receive the higher of the two. Reps who grasp the opportunity, will sell more jobs and make more money. Those who can't will eventually leave.

So, What Is The Best System?

In the mind of the authors (who tend to be somewhat financially focused), the system which rewards the sales rep and provides profitability for the company is the best system. Although simply stated, this is not always the case with sales compensation in the industry. Many compensation methodologies tend to focus on producing sales (rewarding sales reps) or to improve profits (lowering sales rep compensation). Very few systems do both. So, let us explore what a "perfect" system would look like.

First, sales compensation must reward production -- which means acquiring and growing the sales base. Thus, a commission method is best suited for those results. The more sales acquired, the greater reward for BOTH the sales rep and company. Too many owners/managers become concerned when a sales representative is making more money than the leadership team. That is a false narrative. More money for the sales rep ALSO means more sales, and profit potential, for the company.

Printing Industries Alliance

Second, the "perfect" system MUST be based on Value Added. Today's print provider produces a broad variety of products and services. Frequently these are sub-contracted and don't generate comparable contribution as do internal sales. A dollar of that sale is not equivalent to a dollar of sale produced internally. Thus, by using Value Added compensation (which is easily measured) the sales representative and company are rewarded equally.

Third, the system must provide the sales representative with the tools his/her job requires. At minimum: vehicle (mileage reimbursement); phone or tablet; as well as a reasonably structured expense account. Too often companies attempt to micro-manage sales costs which mask the real culprit -- poor producing sales representatives. The KPI (Key Performance Indicator) for a sales rep is sales! If they are producing, the costs associated (mileage, phones, expense accounts) are not going to be an issue. If they are not producing, the focus should be on coaching and assisting the rep to improve their performance, or to find another individual who can perform -- not expense control.

The final piece for the perfect system is to compensate individuals differently. The person who is a hunter (finding new accounts) and thrives on opening doors shouldn't be compensated the same as hunter/gatherer, who can open accounts but thrives on servicing the account. One may be compensated on pure commission with bonuses for achieving certain goals while another may be paid a tiered commission plan (achieving various sales levels with a changing commission structure). The end game is creating a plan which rewards performance!

Compensating Inside Sales Representatives (CSRs)

Today's customer service representatives' role varies dramatically across the industry. In some instances, the individual is an extension of the sales representative and heavily involved with customer contact including face-to-face visits. In other instances, the CSR is a project manager, whose role is to take the hand-off from the rep and coordinate purchases and schedules. With the advent of technology, this individual's role may also include interfacing with portals, inventories, and software/database analysts.

Historically, these individuals were salaried, and in many cases hourly employees (dependent on duties and wage/hour regulations). Yet, there's an argument to compensate these individuals differently. As their role becomes more instrumental in expanding account penetration or retention, the more the reason to create incentive plans which include a bonus or commission based on account performance. While there is no commonly accepted practice, there is merit to this argument. If there is any individual in a company (other than a sales representative) who has more influence on an account, it's the CSR. Thus, why not create a methodology to incentivize them -- whether through a bonus or commission. Yet, because of the nature of their duties a salary base PLUS an incentive is crucial. One also must become aware of the complex wage hour rules at the federal and state level which complicate any type of incentive plan. Incentives become part of the employee's base and any overtime needs to reflect the incentive portion of compensation, but we'll save this discussion for another article.

quoins2pixels is written by Bob Lindgren and Joe Polanco. Bob and Joe have spent decades in the printing industry, and throughout their careers, they have counseled hundreds of company owners on a variety of management topics. As a value-added service of The Printing Industries Alliance, they are available to expand on these articles, or aid with projects. Bob can be reached at (818) 219-3855 and Joe at jspolanco49@gmail.com.