

Designing Sales Commission System for your Staff

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Most companies with sales staff tend to offer sales incentives in the form of commissions or other forms of incentives. The key question to ask for every business running such scheme is: Does paying incentives increase sales? If your answer is yes do you have enough proof to back this assertion? Here are the reasons why paying an incentive is actually giving a free salary.

The first major problem is how much of the sales volume changes are a result of the sale person's effort. In practice we find that much of the sales increases are a result of the organisation's investing in marketing and or promotion activities rather than the efforts of the sales person. There are certain products that have a high sales carryover; sales in the current period resulting from efforts invested in prior year. If you have products with high sales carryover giving a sales person a sales incentives is actually giving a free salary. In high sales carryover environments sales were going to come anywhere whether the sales person did something or not. In such cases it better to play with the basic salary instead of implementing a sales incentive programme. It is therefore recommended that before you implement a sales incentive scheme you calculate the amount of sales carryover for each product to establish whether establishing a sales incentive scheme will positively impact sales. This will definitely help you avoid wasting money by giving a sales incentive where it's not necessary. It is also advisable at this stage that you look at factors that may lead to sales carryover so that these can be communicated to key stakeholders. I am sure there are some out there who have experimented with sales incentives but found no positive impact due to some of the reasons outlined above.

Let's take an example where sales carryover is 50% of sales; this will mean that the sales commission will be calculated on 50% (non effort sales) plus efforts sales of 50%. This is a case of adding staff costs when there is no corresponding value being created and such cases should be avoided at all costs.

In markets where there is low sales carryover commission based sales incentives can work very well. Examples of such markets are in selling insurance products. In such cases it is better to go for a no basic salary at all and give a straight commission.

Sales commission can be effective in times where you are introducing a new product. In such cases you need to balance between what you pay as a basic salary and what you pay as a sales commission. In situations where a company already pays a high basic salary sales incentives is unlikely to motivate people to sell more. Introducing a sales incentive in that environment is a waste of time and company resources. Sometimes such schemes bring unnecessary disharmony within the employee population.

It should be noted the sales carryover problems can be addressed when designing sales incentives. The solution is to go through a proper design process that takes care of all issues at every stage of the design problems. Sales carryover is the major problem in sales incentive design. The other problems are easy to solve with the right guidance.

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