
Taking Away With One Hand While Giving Back With The Other

Here's one attention-getting approach for maximizing an agency's sales force teamwork

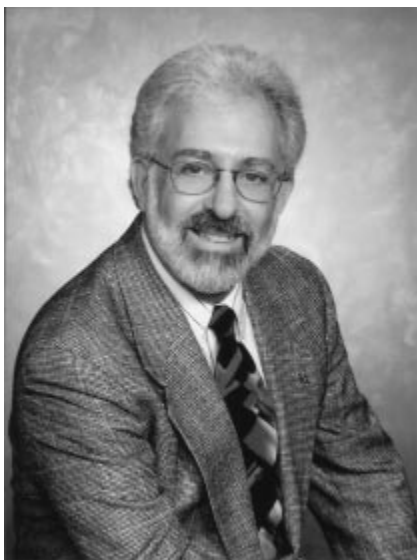
On the one hand, a couple of points of commission were taken away from the outside sales force for Thermal-Netics, Inc. On the other hand, contingent upon achieving specific service/performance levels, salespeople potentially can earn more than they had in the past. This "carrot-and-stick" approach is a key ingredient to a revised compensation program implemented last year by the Berkley, Michigan, MANA member firm.

Thermal-Netics is a leading manufacturers' rep agency in the application and sale of indoor environmental control and energy conservation systems.

"By no means was the teamwork among our outside sales force bad," explains Jim Newman, C.E.M., co-founder and vice president of Thermal-Netics. "We just felt there was room for improvement. As with any organization, you've got some individuals who are very teamwork oriented, while others tend to feel things go better if they keep certain information to themselves. It was the search for improvement with that latter group that led us to do what we did."

Employing a Carrot and Stick Approach

And here's what Newman put into place — a carrot-and-stick approach whereby a percentage of the commission normally paid to outside salespeople was



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placed into a pot. As that amount accumulated, it wasn't paid out until the end of the year after each salesman had been evaluated on a number of criteria referred to as "Compensation Enhancements." The higher the salesperson is evaluated, the more he earns out of the pot.

The approach Newman took to put this new compensation plan in place early last year was spread out over a couple of weeks. "The first week, we called

the sales force together and informed them that a change had to be made if we were going to survive as a profitable firm. Armed with a PowerPoint presentation, we let them know that business in 2002 was off considerably from the previous year. We showed them the expenses of the agency, our gross revenue and explained how manufacturers were requiring us to do more (e.g., download and print out our own product literature rather than ordering it for free)

Thermal-Netics Compensation Enhancements (Figure 1)

Sales		Industry Activities	
Profitability	8	ASHRAE Meetings (local)	3
Gross Volume	8	ASHRAE Committees	1
Percent of Quota in Each Assigned Product Line	5	ASHRAE Committee Chairperson (local)	2
Percent of Overall Quota	5	ASHRAE Board Member (local)	2
Breadth of Product Lines Sold	3	ASHRAE Conventions (regional & national)	1
Above Average Sales to Existing Customers	2	Customer Organizations, e.g., AEE, ASAM, BOMAQ, MDBSA, MSPE, etc.	3
Sales to New Customers	3	Total	12
Help with Accounts Receivable Collections	4	Office Teamwork	
Minimal Level of Backcharges	2	General Courtesy	
Prompt and Efficient Handling of Customer Problems	4	Helping Other Sales Personnel	3
Effective Communication with Manufacturers	2	Answering Telephones when Necessary	1
Contact with Customer Influences	3	General Help Around the Office	1
Efficient Use of Inside Sales and Support Staff	3	Cleanliness — Personal Office, Outer Office and Grounds	2
Optimal Use of Management Time	3	Following of Policies & Procedures	2
Total	55	Office Meetings	
Customer Interface		Prompt Attendance	3
Product and/or Technical Seminars	4	Participation and Contribution	2
Promotions	3	Effective Interfacing With Management and Peers	4
Entertainment	3	Effective Interfacing with T-N Service	3
Total	10	Total	21
<i>Editor's Note: ASHRAE, American Society of Heating, Refrigerating and Air Conditioning Engineers, "is the primary society in our industry — that's why so many points are given for activity in it. It's important both from a technical and a networking standpoint," explains Newman.</i>		Self-Improvement	2
		Total	2
		Total Points	100

than ever before. I think the reaction of everyone after that first presentation was, 'We're going to have to give up some money.' When we followed up that first presentation with another the next week, we shared with them our plans for the enhanced compensation plan."

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It's with the details of the plan that the rubber really met the road, Newman explains. He adds that the sales force's feelings that they had to give up income were certainly true.

"Our salesmen are well compensated for their work. Keeping that in mind, my message to them was 'yes we are taking away money. If we don't, we're not going

to stay in business.' But at the same time we're taking something away, we're giving something back that will allow them to make up the loss in income — and more."

It's at this point that Newman interjects the fact that in addition to the commission that the salesmen earn, they are extremely well supported by the agency. For instance, among the elements the agency provides for its sales staff are:

- A "new definite purpose office building" that provides salesmen with completely furnished private offices, full-time secretarial service, computers, telephones, sales leads, fully equipped kitchen, seminar and conference rooms.
- In terms of "policies and procedures to assist the sales staff," salesmen can take advantage of weekly office meetings, participation in group insurance plans (if desired), 401(k) participation with company matching, and constant management assistance.
- The agency also provides technical magazines and newspapers, customer mailings, product shows, salesperson and customer training and financial assistance for manufacturer training sessions.

While salesmen would experience a drop in the commissions they were being paid, these and other support mechanisms remained in place and unchanged.

Getting back to the "Compensation Enhancements," here's how the Thermal-Netics plan works. "Historically, our split with the sales force was 50-50," says Newman. "That is, 50% of commissions went

to the agency and 50% went to the sales force. The new plan called for a 56½%-43½% split, with the larger figure going to the agency. From the 43½%, however, we only paid the salespeople with 40%. The remaining money went into a pot which is divided at the end of the year, according to how salespeople are evaluated from a number of criteria."

Employing a Revised Plan

It's those criteria that are the crux of Newman's revised compensation plan. Specifically, the criteria that are used to evaluate the salesmen involve five distinct areas (see Figure 1 on the previous page which shows the specific areas and points affixed to each activity):

- Sales
- Customer Interface
- Industry Activities
- Office Teamwork
- Self-Improvement

According to Newman, many of the areas used in the evaluation just about define themselves (e.g., profitability, gross volume). There are other areas that are much more subjective and hence difficult to get your arms around. For instance, consider the difficulty that can accompany trying to effectively gauge how well one performs in areas such as "optimal use of management time" or "efficient use of inside sales and support staff."

Acknowledging that these "subjective" areas present a challenge, Newman explains that these are difficult areas, but there are ways to "reach our goals. When we're taking a look at how a salesman makes

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effective use of management time, for example, I might look at how and when he comes to us for assistance. Keep in mind that our doors are open 99% of the time. But if someone comes to me with a question, I might respond 'Have you looked in such and such a place for the answer?' I do that to let them know that with a little initiative they could find the answer themselves, and they should use me as a resource only when all else fails. Or, in the case of efficiently using inside sales and support staff, I'll take a look at whether the salesman is trying to complete too much paperwork himself and not passing it off to the inside staff as they should.

"By affixing a numerical value to tasks such as these, it's our goal to have the salesman think twice before following a less efficient path."

As can be seen in Figure 1, the total number of points a salesman could accrue through this evaluation process is 100. "To participate in the plan, an individual must earn at least 70 out of the 100 points," Newman explains.

Working for Increased Teamwork

Since the compensation program has only been in place for one year, it may be a little premature to grade its effectiveness. Newman explains that what has been put in place works well, however. "Our goal isn't to create a mold into which every salesman has to fit. We're well aware that individuals are different and have different strengths and weaknesses. What we hoped to accomplish, and I think we've done that, is to create a framework within which we can all effectively work together. It's an awful lot of work to administer a program such as this, but I think it's been worth the effort."

As to whether it proves to be cost effective, he adds that the agency's income should match that which it reached in 2001. "We lost some major lines in 2002, and our sales were down compared to 2001. I think the major goals of putting this program into place have been reached." □