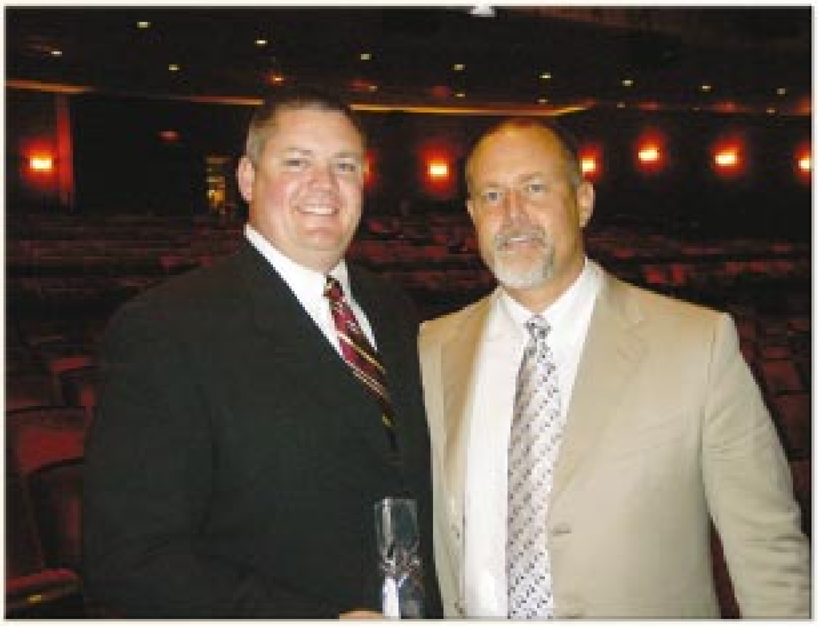
The Case For Incentives

Incentives drive sales. When there are sales, there is accountability.



Kurt and Todd Nelson

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That's the belief of MANA members Kurt and Todd Nelson, Nelson & Associates, Santa Fe Springs, California, when the subjects of principals compensating agencies, and agencies compensating their sales force come up.

Considering the former — commissions that principals pay their agencies — Kurt Nelson offers the view that "the best compensation programs we have in place with our principals are those that include stretch goals. For instance, your budget with a manufacturer may call for an increase in sales of 10%. Also included, however, is the provision that if we hit a 15% increase, we'll be paid an additional 1% — all the way back to the beginning. We really love those kinds of arrangements, and we'll work hard to exceed goals."

In consideration of retainers or various shared territorial development agreements with principals, Nelson counters with the philosophy that "if you're 'repping' the line and the manufacturer comes out with a new product, it's your job to sell it. That's your job and if you want to be the best at your job, you sell. That's what's expected of you as a rep. Sure, retainers and other incentive plans help the bottom line, but the real question is, do you want to be around for the future with this manufacturer? If the answer is yes, then make every effort to get on the same page as your manufacturer and help them reach their goals. Find out what rocks your manufacturers and then rock them."

If the Nelsons prefer to follow an incentive-laden route with their principals, that's the same philosophy they've embraced for their sales force. "We believe in a 'directable' sales force," explains Kurt Nelson. "I'm well aware that there are many rep firms that pay their salespeople based on commissions. The belief there is that the sales force will run for the buck. Consider this, however: If that's what we did, what would happen with new product launches and other types of manufacturer initiatives? I don't think we'd get our sales force to perform the various initiatives. Since we recognize that fact of business, it's our belief that our salespeople have to be paid in a different manner."

Emphasizing that paying strictly on commission is "old school," Nelson explains that in addition to a salary, his agency has a bonus pool to reward individuals for performing those important added tasks for principals such as promotional work, new product sales, monthly reports, etc. "These tasks may be considered small or minor by some, but I believe there's an expectation among your principals that they will be performed in a professional and thorough manner. Furthermore, since we're getting a big check from the manufacturer, as professionals we should willingly perform the job of giving them updates or telling them what we've done with product samples, new product launches, etc. That's just the way the job should be done. For any professional rep firm, that's no big deal. Maybe it's a major undertaking for others that don't share our goal to provide more value, but we feel we have to do the job that we perform better, faster and smarter than anyone else."

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He goes on to describe his company's bonus plan. "Our plan is based on what we call Key Performance Measurement (KPM) elements. In our electrical division, for instance, we break it down this way:

- 35% for conversions
- 20% on sales growth by line
- 15% for proper planning on the calendar
- 15% for the promotion du jour — completing manufacturers' promotion programs
- 15% for no second requests (Did you meet your points?)

"Simply stated, if you do your job, you can earn extra income. And, there is no cap on how much an individual can earn."

Here's how the bonus plan is funded according to Nelson. "We take the sales of all of our commodity lines, which number 17. As we reach our budget with each line, that adds 1% to the bonus pool. If we meet budget with all 17, that adds 17% from our total commodity sales to the pool. The obvious motivation is to sell lots of commodities. It's also a case of reverse discrimination in that our salespeople pay a lot of attention to the commodities, and it raises the importance of those product lines on our line card. The whole theme here is accountability. We have to be accountable for reaching our goals. If we do, there are rewards. It's basically a belief that we're capitalistic and our goal is to make money. That's what we do."

Todd Nelson adds that when discussing compensation for agency personnel, there's more to the conversation that straight salary, commission or bonus plans. "We've put together an employee compensation and benefits program here that is competitive with Fortune 500 companies. We have to do that in order to attract the top people. We've got 17 different health plans for our employees to choose from. Plus, we offer Section 125 life insurance and disability coverage."

He adds that when an employee ultimately leaves a company for another job, pay is fairly low on the list of reasons to leave. "Before they list pay, they'll tell you they want to be appreciated for what they do, they want empowerment, they want to be challenged, and they want to grow in their jobs. Then comes pay." ❒