You Get What You Pay For, Not What You Say You Want

I have written about how you don't get the behaviors you want just by saying you want them in the article **You get what you inspect, not what you expect**, and this principle also holds true for sales compensation models. The rule here is that you will get the behaviors you compensate, not the ones you say you want. So if you want to sell more of a particular item, you have to design the compensation plan so that it mirrors and rewards the sales activity that you really want.

The problem with many sales and incentive compensation programs is that there is a gulf between what you want and what you reward. Since you will always get the behaviors that your programs compensate and not the ones you simply say you want, it s essential that your incentive compensation programs are aligned with your strategic plan.

This issue is most common where salespeople sell products and services that have very different margins. You want to sell more of the high margin item but it is usually harder to sell. Unless you make a significant difference in sales compensation levels between the two items you will find that however much you jump up and down and motivate your people, you end up selling a lot more of the lower margin item.

The most common mistake is paying commission based on Revenues rather than Gross Margin. Let's suppose that you have a business that sells a product and also services it:

- Product sales will typically be in the 15 – 25% gross margin range (unless you are in a commodity business). They will be higher ticket items than service and are easier to close because there is a motivated buyer with a time-based need.
- Service contracts are typically in the 40 -60% gross margin range after all direct servicing expenses. They are at a lower dollar value and are typically harder to sell because you are competing with inertia, but the lifetime value of the sale will be exponentially higher than the transaction sale.
- You say that you want to grow service revenues that are at a higher margin and represent a recurring revenue stream that adds value to your company rather than transaction revenues that are at a lower margin and do not recur.

Service revenues will not grow just because you tell everybody that you want that to happen. They will only grow if you pay more for service contracts than you do for product sales and the best way to do that is to pay on the margin with a (modest) tail for recurring revenues.

Using the example above, I would pay a commission percentage that was driven off the actual gross margin received for both transaction sales and recurring revenue/service sales, with a bonus for hitting the quotas that represent what I really want.