

## Sales Compensation

Category: Compensation

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In small businesses there are as many mistakes as there are different approaches to sales compensation. Whether it is paying on revenues rather than gross margin, failing to match incentives to desired outcomes or a dozen other things, mistakes in this area can be very serious.

Through bitter experience I have always backed into sales compensation by identifying what I regard as representing success in the job and then deciding what that level of performance would be worth to me financially. Then I break it down into three separate components:

- Base salary (if any)
- Commission for sales made
- Bonus for meeting agreed target/quota

If a salesperson is missing the targets that are important then they should also miss their compensation goal. The idea of the bonus is to make up the difference between base and commission to reach the compensation target.

For example: If a successful salesperson should make \$100,000 for sales of \$500,000 then the plan might look like this:

- Base salary \$30,000
- Commission at 8% \$42,000
- Bonus for meeting quota \$28,000

The beauty of this is that it provides a mechanism that can adjust commission and refocus on hitting quotas that are meaningful to the business. The quota bonus can be expressed in gradations so that a percentage is still earned even if the target is missed by 10 or 20 percent, and the total compensation is geared to company goals.

After all....we get the behaviors we reward, not the ones we say we want.