By Alan Friedman

Employee Compensation: 'Take This Job and Shove It'

Remember the time when there were plenty of qualified people available for employment? You could expect your salespeople to get tons of business, with little concern about where it came from—much of it just walked in the door simply because you existed. Well, unfortunately, all that has changed.

The last couple of years have carried a mixed bag of results for music retailers. Most will admit to a general uneasiness about the continued lack of profitability of their products due to increased competition and customers who are much more savvy about retailing choices. These factors—coupled with a change in retailing dynamics like the recent growth of large chains, mail order houses and e-commerce retailers—have translated into a perceived softness in the music retailing marketplace. Accordingly, retailers are less likely to start increasing employee compensation when store profits are shrinking. This, in turn, leaves salespeople frustrated and discouraged, causing them to leave. This is not good.

Bottom's Up

Here's some good news. Music retailers now have powerful tools available to help reward and retain key salespeople: sophisticated sales and accounting software. These new data-capturing applications can allow a retailer to easily and precisely measure employee sales performance. For example, a few years ago you could probably measure gross sales by store and by department, but getting more detailed information was often difficult. Now, retailers have the ability to generate reports that measure financial results, like gross profits by store, department, salesperson, customer, product line and product.

Right now you're saying to yourself "Well, it's great that I can accurately determine who's making me a lot of money and who isn't, but that doesn't give me more money to pay my sales force." Untrue, as long as you're willing to do the unpleasant but necessary tasks that follow. This revealing sales data should be viewed as an opportunity to increase sales productivity. Having the ability to accurately measure the results of sales behavior gives you the corresponding ability to reward that sales behavior more precisely. To put it bluntly, you can now reward the employees adding to your bottom line and axe the ones who are dragging you to the bottom, without spending an additional dime.

Compensation Basics

Every company has different employees executing different functions. These employees are usually labeled and accounted for by the nature of their job function, like "sales," "administrative," "management" and "other."

In most retail organizations, employee compensation for sales people differs from compensation for other employees. Since the performance of a sales staff is specific and measurable, sales goals are generally the criteria for sales employee compensation.

But if you're paying your sales people "salary only" or "commissions based on gross sales," you're using an obsolete formula. The time has come for music retailers to get a financial health check-up that starts with reviewing how their most important asset (their employees) is being cared for.

Calling Dr. Comp

A well-thought-out sales compensation plan is critical to business success. But before you begin surgery on the plan you have in place, make sure you've got the right marketing and sales strategy. Then ensure your people are in the right jobs, well managed and well trained. Once all that's in place, check the health of your sales compensation plan for these 12 potential problems:

1. Your plan's pay is not competitive. Your sales staff's compensation may be too much or too little when compared to the rest of the industry or your competitors. Check with published surveys, like the *NAMM Compensation and Benefits Survey*, to determine whether your pay is competitive.

2. The plan doesn't pay for results. Pay incentives need to coincide with new and more aggressive sales behaviors. If your staff is producing results, but not receiving financial rewards directly tied to those results (i.e. straight salary), start tying compensation to results key to your business strategy.

3. Your plan pays for the wrong results. Your store's business strategy calls for an increase in gross margins, yet your sales staff receive compensation based on gross sales. You require your sales staff to rent band instruments, but their compensation is based on sales activity. You expect your sales staff to develop new business, but they receive the same incentive payments for existing business as they do for new customers. Make sure you're compensating your staff for the most important activities connected to your business strategy.

4. Your compensation plan's pay targets are too high or too low. Profit quotas that are too high cause frustration; when they're too low boredom sets in. Involve your sales staff in setting tough yet achievable goals. Make sure their pay is bench marked against competitive pay practices.

5. The pay program is too confusing, has too many goals or is not quantifiable. Your staff may not understand the program because too many measures are used as criteria for compensation. If measures aren't quantifiable, they're open to interpretation, which can cause friction between you and your staff.

6. Your goals are unachievable. When employees aren't provided with the resources, responsibility or decision-making authority necessary to achieve results, they can't succeed. Don't make salespeople responsible for increased margins if they don't have the authority to make decisions on pricing.

ALEX & EDDIE'S MUSIC KINGDOM
CHART 1
ANNUAL COMMISSION SCHEDULE

Gross Profit Dollars	Commission Percent
\$ 0 - \$ 25,000	22%
\$ 25,001 - \$ 50,000	23%
\$ 50,001 - \$ 75,000	24%
\$ 75,001 - \$100,000	25%
\$100,001 - \$125,000	26%
\$125,001 - \$150,000	27%
\$150,001 - \$175,000	28%
\$175,001 - \$200,000	29%
\$200,001 - \$225,000	30%
\$225,001 - \$250,000	31%
\$250,001 - \$275,000	32%
\$275,001 - \$300,000	33%
\$300,001 -	34%

7. Too much or too little risk is required when compared to the reward. Compared to incentive payments, straight salary does not motivate a salesperson to sell. On the other hand, a salesperson with a no-base salary and a high-incentive opportunity may have too much risk and find it too hard to persevere. Make sure your sales staff has to stretch—without getting injured—to meet their goals.

8. You've got a long sales cycle with no interim rewards. If a salesperson is selling big ticket items, or products/services which require a significant amount of time for technical support or persuasion, milestone compensation awards can provide much needed encouragement.

9. The achievement requires team effort, but rewards are individually based. Team rewards can be effective if (a) all who participate in the sale are included in the compensation payout; (b) they agree that all or a portion of their compensation is the result of their team efforts; and (c) they or their sales manager can effectively measure and manage any variations in performance among salespeople.

10. Variance in pay from pay period to pay period is

ALEX & EDDIE'S MUSIC KINGDOM
CHART 2 - COMMISSION PAYOUT SCHEDULE – For the three months ended March 31, 2001

	A	B	C	D	E	F	G	H	I	J
			(A-B)	(C/A)	(C x 4)	(Chart 1)	(E x F)	(C x F)	($500 x 13 wks)	(H-I)
Salesperson	Sales	Cost of Goods Sold	Gross Profit	G.P. Pct. (%)	Annualized Gr. Profit	Comm. Pct. (%)	Annualized Comm. Earned	Period-T-D Comm. Earned	Period-T-D Comm / Draw Paid	Period-T-D Comm. Due (Owed)
Sammy	$ 100,000	$ 76,000	$ 24,000	24.00%	$ 96,000	25%	$ 24,000	$ 6,000	$ 6,500	$ (500)
Dave	79,000	47,000	32,000	40.51%	128,000	27%	$ 34,560	$ 8,640	$ 6,500	$ 2,140
Totals	$ 179,000	$ 123,000	$ 56,000	31.28%	$ 224,000		$ 58,560	$ 14,640	$ 13,000	$ 1,640

too great. Incentive pay periods in most companies are monthly. But they should be modified if compensation pay outs occur too long after the sale, in order to provide timely reinforcement. Draws can be a useful way of easing the variance in pay between pay periods.

11. Too much emphasis is placed on money as a reward. People are motivated by the opportunity to do a job well. They also get satisfaction from the reinforcement provided by working effectively with peers and their boss. Recognition should occur in a variety of ways. Development of strong personal bonds and the opportunity to celebrate as well as share their achievement with others often provide great rewards.

12. Rules are either lacking, unclear or subject to too much interpretation. Communicate your store's compensation plan in writing.

Charts, Charts & More Charts

Chart #1 and #2 show one of the many incentive-based sales compensation methods a music store can use. Chart #1 shows how much each salesperson can make (on an annual basis) based on their sales performance, measured by gross profit dollars. Chart #2 shows how their compensation is calculated based on Chart #1. Let's take a look at an example showing how these reports can help store owners Alex and Eddie determine which sales employees are most productive.

On Jan. 1, 2001, Alex & Eddie's Music Kingdom (AEMK) hired two new sales employees, Sammy and Dave (former singers for some obscure rock band, now desperately needing employment). AEMK agreed to pay them a draw against commissions of $500 a week. The first quarter has now ended (3/31/2001), and Alex and Eddie are reviewing the nifty report in Chart #2 showing Sammy and Dave's sales performance.

At first glance, you probably think Chart #2 is the mathematical calculation for the Gross National Product, adjusted for inflation and cost of living. Upon taking a closer look, you will notice the report is simple to read and understand—I've even labeled each column and illustrated how each column is calculated.

Who's Better, Sammy or Dave?

I've heard that question before! First let's look at how each performed. Perhaps it looks like Sammy did better than Dave simply because he sold more ($100,000 v. $79,000). How wrong you are. In fact, Dave contributed $32,000 of gross profit for the quarter against Sammy's $24,000. You would never know this unless you're tracking the gross profit for each employee.

Because this report is for the first three months of their employment ending 3/31/2001, we have to take their gross profit to date (column C) and annualize it (column E) to see which commission rate (column F) they've earned from Chart #1. Finally, once we know where they're heading (column G) and what they've earned for the three months (column H), we can then compare it to what they've been paid to date (column I) and calculate whether we owe them or they owe us (column J).

This plan allows Alex and Eddie to reward Dave for a job well done, and reconsider whether to (a) help Sammy better understand profits and maybe try it for one more quarter; (b) reduce his draw so it's more in line with his earnings; and/or (c) give him his walking papers.

Some Final Thoughts

There are a few quirks in Alex and Eddie's comp plan. For example, what if this was the fourth quarter—holiday time—of the year and profits are temporarily high? What if the learning curve for a pro-audio salesperson is longer than a guitar and amp guy? What if the salesperson has other non-sales responsibilities, like band instrument rentals or being store manager, webmaster, coffee-and-donut-runner? These special situations will require a special "tweaking" to the comp plan. But the essence of the plan is still to reward employees commensurate with their productivity, whether measured in gross profits earned, expenses controlled, new business procured or anything else important to your business. This will go a long way to retaining your key employees and helping them feel valued instead of quitting and opting for a more stable career in accounting and taxation. Eccchhh!

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