



# "A Comp Plan for All Music Retailers"



Presented by

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# Objectives of this Seminar:

- ◆ Identify the “problems” affecting most compensation plans in use today
- ◆ Assess the health of “your” comp plan and provide remedies right now !!
- ◆ Review a sample compensation plan that can work for many of today’s “music retailers”

# Common Problems with most Comp Plans

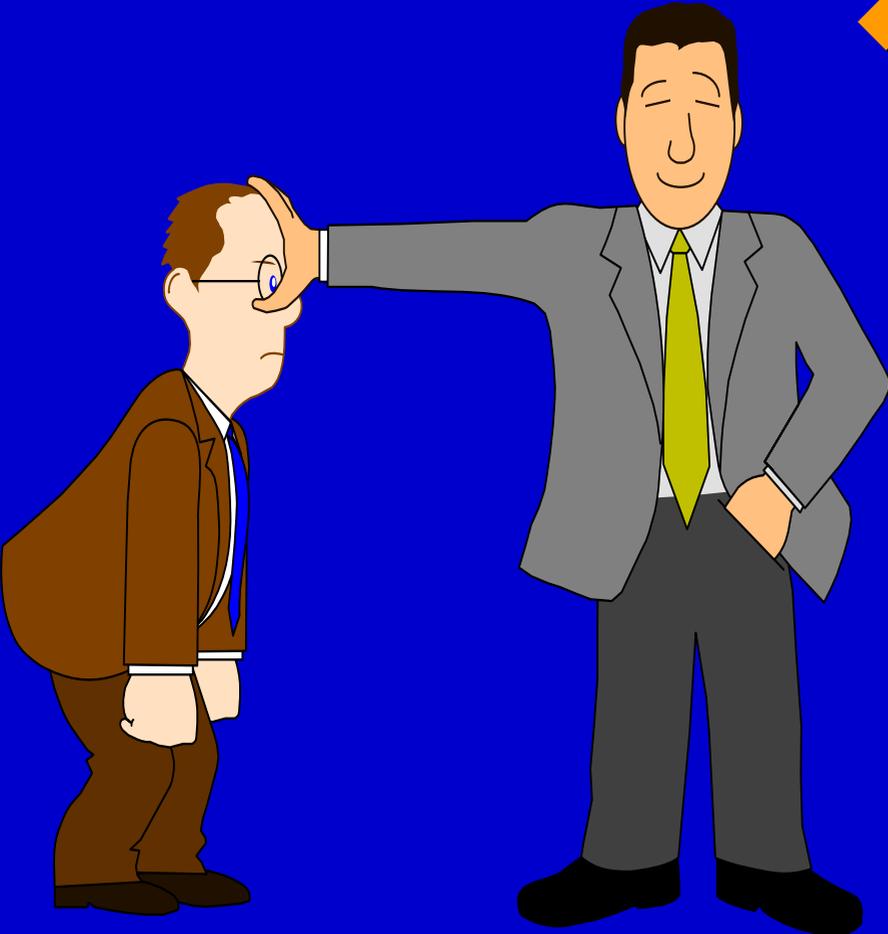


# 1. Is your comp plan competitive?

- ◆ Does your store pay either too much or little, compared to other music store competitors?



## 2. Does your comp plan pay for “results”?



- ◆ Many salespeople are paid on “straight salary” (now considered an antiquated plan that no longer works in today’s competitive retailing world)

# 3. Does your comp plan pay for the wrong results?

- ◆ You want more gross "profit", but you pay based on gross "sales"
- ◆ You want more "rentals", but comp is based on "sales"
- ◆ You want "new" customers, but comp is no different whether sales are made to new or existing customers



# 4. Are your pay targets are too high/low?



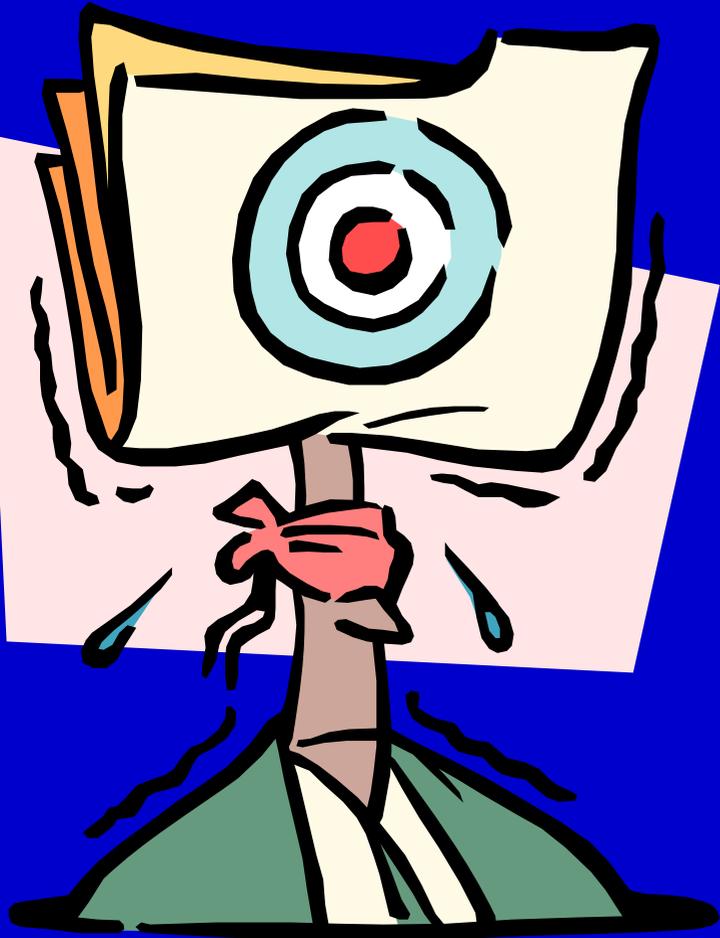
- ◆ Your comp plan has sales quotas that are too "high", causing frustration, or...
- ◆ ...your comp plan's sales quotas are too "low", causing boredom

# 5. Is your comp plan is too confusing?



- ◆ Your comp plan is complicated, has too many goals or isn't quantifiable
- ◆ Your comp plan is open to interpretation, causing friction among staff and management

# 6. Are your comp plan pay goals unachievable?



- ◆ Your employees aren't given the resources or decision-making authority to achieve results (i.e. you make your employees responsible for increased margins, but they can't make decisions on pricing)

# 7. Does your comp plan carry too much risk?

- ◆ Non-incentive comp plans don't motivate employees to sell
- ◆ A commission-only plan may carry too much risk



# 8. Does your comp plan have a long sales cycle with no interim rewards?

**Your  
Store  
Manager**



- ◆ Your sales staff sell “big ticket” products or services that require a significant amount of time to learn how to sell, causing lengthy periods of time between the training, sale and paycheck

# 9. Do your goals require team effort, but rewards are individually based?



◆ You speak of “teamwork”, but reward for individual performance only (you’re an idiot)

# 10. Do your employees get paid long after the sale has been made?



- ◆ "The burden of calculating commissions" is your lame excuse for not paying sales rewards within 30 days

# 11. Does your store place too much emphasis on money as the reward?



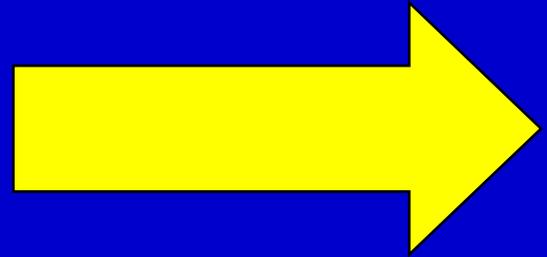
- ◆ A lack of recognition or positive reinforcement from you and/or peers is causing employees to hate their job, no matter how well they're paid

# 12. Are your employment rules unclear or subject to interpretation?



- ◆ You haven't clearly communicated your store's employment policies or how your comp plan works
- ◆ You've never addressed what happens during training periods, unusual circumstances or upon termination?

**...okay, let's cure  
these comp plan  
illnesses...**



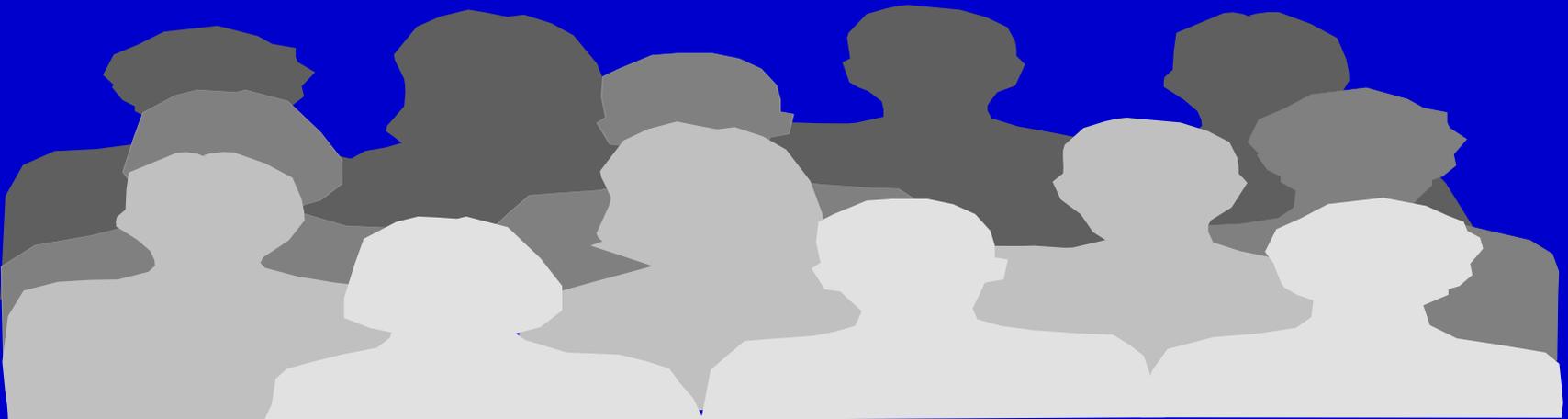
# #1 – Your comp plan isn't competitive?



- ◆ Check with published surveys, like the NAMM Compensation and Benefits survey, and the “new” NAMM Cost of Doing Business Report

# #2 – Your comp plan doesn't pay for results?

- ◆ Implement an incentive based plan for “all” employees (yes, even salaried office staff!)



# #3 – Your comp plan pays for the wrong results?



- ◆ If you want more gross profit, then pay comp based on gross profit \$\$\$
- ◆ If you want more rentals, then pay bonuses for new rental contracts signed
- ◆ If you want more customers, then pay bonuses for sales to “new” customers

# #4 – Your comp plan pay targets are too high/low?



- ◆ Set comp goals that are benchmarked against both your competition *and* what your store can afford

# #5 – Your comp plan is too confusing?



- ◆ Keep comp goals quantifiable, few in number and easy to understand

# #6 – Your goals are unachievable?



- ◆ Give employees the decision-making authority they need to achieve comp goals
- ◆ Make sure they have support from those who impact the quality and delivery of the product and service you sell

# #7 – Your comp plan has no correlation of risk to reward?

- ◆ Make sure employees have to stretch (without getting hurt) to meet comp goals; use “draws” to minimize risk



# #8 – Your comp plan has a long sales cycle with no interim rewards?



- ◆ If your sales staff are selling big ticket items or products/services that require a significant amount of time to learn, “milestone” comp awards can provide much needed encouragement

# #9 – Your goals require team effort, but rewards are individually based?

- ◆ Team rewards are effective, as long as (a) “all involved” in the sale are included in the payout, (b) they agree their comp is the result of team “efforts”, (c) sales performance can be “fairly” measured, and (d) “poor” sales performance can effectively be dealt with



# #10 – Employees get paid sales rewards long after the sale has been made?



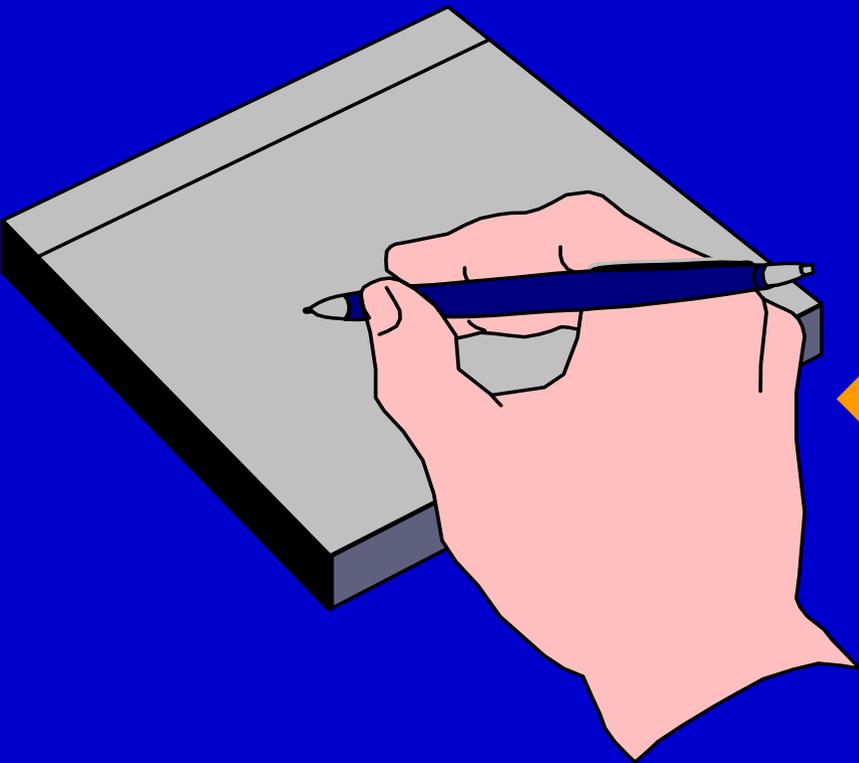
- ◆ Keep incentive pay periods short in order to provide timely enforcement (use draws)!

# #11 – You store places too much emphasis on money as the reward?

- ◆ Remember...people are generally motivated by the opportunity to do a job well, and get satisfaction from their achievements
- ◆ Recognize and reinforce your staff by getting to know your employees, develop strong personal bonds, celebrate achievements and provide great rewards



# #12 – Employment rules are lacking, unclear or subject to interpretation?



- ◆ Communicate your store's employment policies and comp plan "in writing"
- ◆ Detail how staff are paid under "unusual" circumstances

**Let's take a  
look at a  
sample comp  
plan for a  
music  
retailer...**



# Step 1:

# Establish a Commission Chart

<u>Gross Profit Dollars by Quarter</u>				
<u>1st Qtr</u>	<u>1st - 2nd Qtr</u>	<u>1st - 3rd Qtr</u>	<u>Annually</u>	<u>Comm. Percent</u>
\$ 0 - \$ 6,250	\$ 0 - \$ 12,500	\$ 0 - \$ 18,750	\$ 0 - \$ 25,000	22%
\$ 6,251 - \$ 12,500	\$ 12,501 - \$ 25,000	\$ 18,751 - \$ 37,500	\$ 25,001 - \$ 50,000	23%
\$ 12,501 - \$ 18,750	\$ 25,001 - \$ 37,500	\$ 37,501 - \$ 56,250	\$ 50,001 - \$ 75,000	24%
\$ 18,751 - \$ 25,000	\$ 37,501 - \$ 50,000	\$ 56,251 - \$ 75,000	\$ 75,001 - \$100,000	25%
\$ 25,001 - \$ 31,250	\$ 50,001 - \$ 62,500	\$ 75,001 - \$ 93,750	\$100,001 - \$125,000	26%
\$ 31,251 - \$ 37,500	\$ 62,501 - \$ 75,000	\$ 93,751 - \$112,500	\$125,001 - \$150,000	27%
\$ 37,501 - \$ 43,750	\$ 75,001 - \$ 87,500	\$112,501 - \$131,250	\$150,001 - \$175,000	28%
\$ 43,751 - \$ 50,000	\$ 87,501 - \$100,000	\$131,251 - \$150,000	\$175,001 - \$200,000	29%
\$ 50,001 - \$ 56,250	\$100,001 - \$112,500	\$150,001 - \$168,750	\$200,001 - \$225,000	30%
\$ 56,251 - \$ 62,500	\$112,501 - \$125,000	\$168,751 - \$187,500	\$225,001 - \$250,000	31%
\$ 62,501 - \$ 68,750	\$125,001 - \$137,500	\$187,501 - \$206,250	\$250,001 - \$275,000	32%
\$ 68,751 - \$ 75,000	\$137,501 - \$150,000	\$206,251 - \$225,000	\$275,001 - \$300,000	33%
\$ 75,001 -	\$150,001 -	\$225,001 -	\$300,001 -	34%

# Step 2:

## Calculate Gross Profit Dollars

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
			(A - B)	(C / A)
		<b>Cost of</b>	<b>Gross</b>	<b>G.P.</b>
<u>Salesperson</u>	<u>Sales</u>	<u>Goods Sold</u>	<u>Profit</u>	<u>Pct (%)</u>
Sam	\$ 100,000	\$ 76,000	\$ 24,000	24.00%
Dave	<u>79,000</u>	<u>47,000</u>	<u>32,000</u>	40.51%
Totals	<u>\$ 179,000</u>	<u>\$ 123,000</u>	<u>\$ 56,000</u>	31.28%

# Step 3:

## Look Up Commission Rate

<u>Gross Profit Dollars by Quarter</u>		
		<b>Comm.</b>
<u>1st Qtr</u>		<u>Percent</u>
\$ 0 - \$ 6,250		22%
\$ 6,251 - \$ 12,500		23%
\$ 12,501 - \$ 18,750		24%
\$ 18,751 - \$ 25,000		25%
\$ 25,001 - \$ 31,250		26%
\$ 31,251 - \$ 37,500		27%

# Step 4:

## Calculate Commission Pay

	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
	(Table Lookup)	(C * E)	(\$500 x 13 wks)	(F - G)
		Period-T-D	Period-T-D	Period-T-D
	Comm	Comm.	Comm / Draw	Comm.
<u>Salesperson</u>	<u>Pct (%)</u>	<u>Earned</u>	<u>Paid</u>	<u>Due (Owed)</u>
Sam	25%	\$ 6,000	\$ 6,500	\$ (500)
Dave	27%	<u>8,640</u>	<u>6,500</u>	<u>2,140</u>
Totals		<u>\$ 14,640</u>	<u>\$ 13,000</u>	<u>\$ 1,640</u>

# What to do with Sam...

- Give Sam training, help him with his understanding of “profit”, and try it for one more quarter, *or...*
- Reduce his draw so it's more in line with his earnings, *or...*
- Kindly and gently fire his ass

# Other Comp Plan Issues:

- **Time of plan implementation:** What if this was the 4<sup>th</sup> quarter and profits are temporarily high?
- **Skills required varies by dept:** What if the product learning curve for Sam (a pro audio guy) is longer than Dave (a guitar & amp guy)?
- **Non-sales responsibilities:** What if Sam is also responsible for rentals, repairs, and the store's website?

# Tips and Suggestions



# Music Retailing Accounting Software to check out at the NAMM show:

- **AIMSi...Tri-Technical Systems**
- **Maestro...RSSS**
- **tyler.net...Tyler Business Systems**

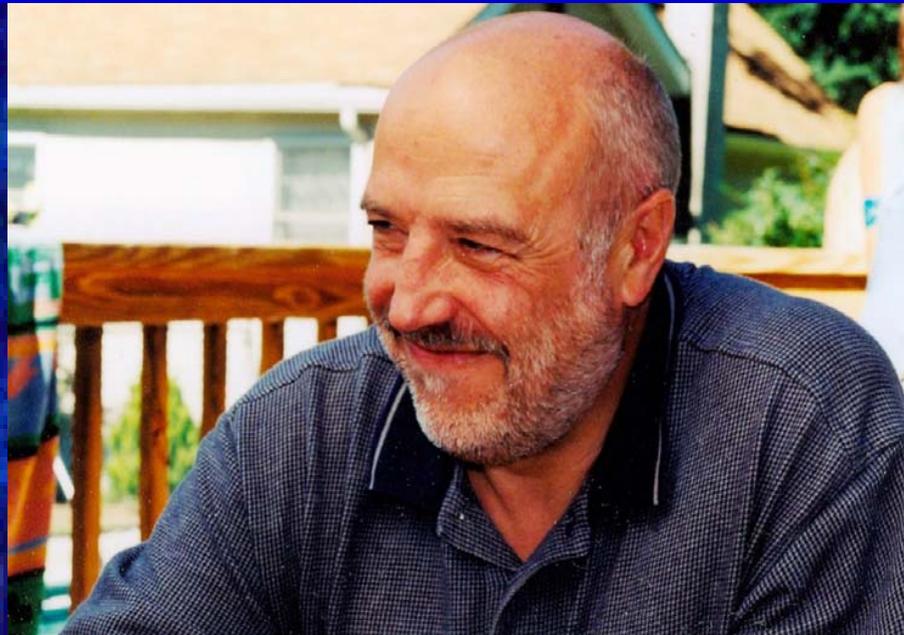
# Tri-Tech AIMsi Support

**John Gray, Owner**

Back Office Support Services

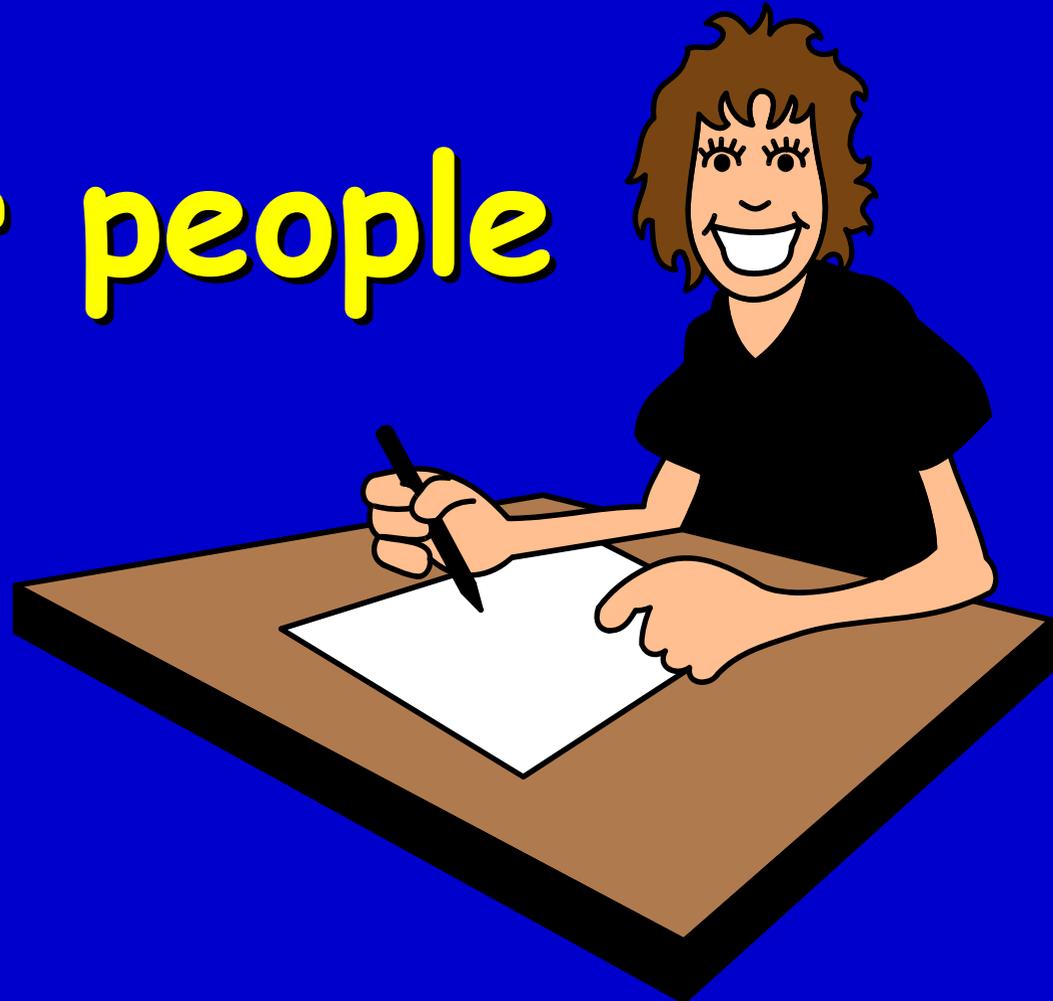
Blairstown, NJ

**(201) 230-2552**



Lastly, take care of your most important asset ...

...your people





friedman kannenberg

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and company pc

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