

White Paper
The Death of
Commissions
and its
Subsequent
Rebirth.

Lanshore LLC.
June 2017

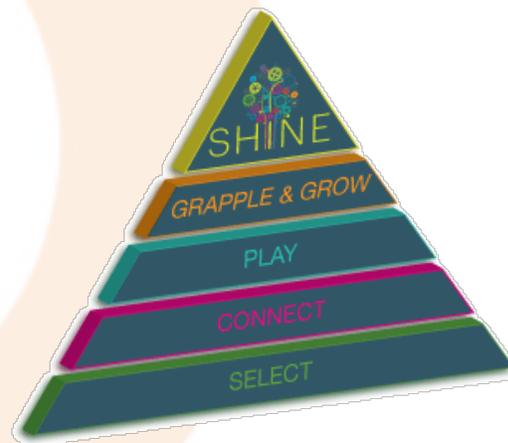
There is an interesting perspective I have on sales and how, in some ways it has morphed. I have the unique claim to have sold the following: Newspaper ads, Mattresses, Insurance (heart disease and cancer), Movie Theater Snacks, Consulting Services, Software, Software Implementations, even garage equipment.

When I first started writing this white paper, the idea was to look at all the naysayers of commission and determine that indeed money does motivate. The following is what I found.

I wanted to compare companies who have widely touted as doing away with commissions, to see how they were doing years later. I also wanted to look at traditional commission models, determine where the discrepancies were, and why some models are better for different types of people. Lastly, I wanted to take a company focused approach from both large and small business points of view.

For research purposes, I decided to pour through countless web articles where they state that commissions are dead or hurt organizations. While doing so I came across Daniel H Pink, widely loved by some and hated in many circles. His books *Drive* and *To Sell Is Human*, discuss the types of ways salespeople are recognized and motivated.

In Shine, Edward M. Hallowell goes through countless studies to determine the ways people are motivated by managers and their work place. I particularly like the angles both authors take on these subjects, although they completely avoid the corporate objective. By this I mean, in some cases commissions are used to reduce workforce, simply by getting people to opt out.



In the case of a small business, it is a lever to get talented people in quickly and move the investment in that person, effectively delaying their cost, further down the line and helping the company's cash flow (having run several small businesses, I know this tactic well).

In the new era of information overload, we have asked our salespeople to do more, know more, process more. We have made focusing more difficult to people who naturally can't focus, because of the material surplus and the multitude of processes companies have. Daniel Pink specifically calls out that money based motivation is highly effective in rigid tasks, and states that in complex thinking or long-term efforts, it fails supremely.

Edward M. Hallowell discusses in his book *Shine*, the need to erect boundaries for employees so that they can be more motivated and effectively shine at their job. In essence, we need to look at our sales organizations as many have lost focus, and clearly define those stated goals that our sales people can exceed at and incent them properly for it.

Look at sales and how the customer has changed over the years, from the willing buyer to the sophisticated shopper, it requires for us to look at the people who interface with these individuals, the sales person. How do we motivate these people to sell more? How do we reward them when they do? How do we identify when they are not a fit for the position?



If you read Daniel H. Pink “*To Sell is Human*” you will see how he describes the morphing of the salesman. Pink interviews the last Fuller Brush sales person, and looks at how selling morphed from door to door, to the internet.

As sales managers, owners, sales operations or the other litany of titles that manage the salesforce in some way, we must take it

upon ourselves to first understand our customer, their buying habits, then tailor our sales training and incentives to model successful sales behavior. What does that mean to you, the “manager”? It means connecting and thinking, sitting in the customer’s shoes and looking through their eyes. It also means riding along with your sales personnel, to see how they behave, and again, how they react.

Why did we write this?

When we embarked on this white paper the idea was to disprove the likes of the scholars and non-practitioners who constantly say that commission is dead. So, in many ways, this was a rebuttal for them. But it’s also for those of us who are looking for some simple answers to what we have all been thinking. There must be a new concept, a new structure for commissions. Commissions are not dead, but they certainly aren’t what they used to be.

With sales becoming more complex, it stands to reason that you have to take a longer, more thorough approach to how one sells. In doing so, commissions and team concepts need to come to the forefront. In the light of that, I can’t help but think that a lot of business owners and people who are putting these commission structures in place, were ultimately the target.

What trends in current commissions?

- Death of commissions
- New commission structure
- Commissions- the naughty word in banking (can't even be said in the UK)

The carrot and the stick for all intent purposes is dead. When people can get on the internet and do 90% of their pre-work and many times become more educated than the sales person, what can a sales person ultimately do? How can they ever get that customer to buy, and how can you affect that behavior via commissions?



Many of the studies done, clearly showed that the former method of commissions was strictly successful for sales people who were either order takers, or sales that lacked in depth of knowledge. Think of someone selling a toilet brush, how many different variations could there be to commission them on signing the orders?

Your dead commission plans look something like this:

For every toilet brush you sell, you get 50% of the value of the brush. See this would incent you to either turn those brushes quickly and make a little off each one, or try to get you to sell a brush for \$2,000 to some unsuspecting moron and pocket the loot.

The reason why this plan is dead, is that most people are buying their toilet brushes online, or at a big box retail store, where finding a human would be a minor miracle. Don't be confused, variations of this will live on in other places, where there are hordes of sales people willing to helpful (the often-mentioned Used Car lot and Cell phone stores). The reason for this according to many is that the idea is antiquated -in the case of the used car lot or cell phones- and that it's being phased out by internet sales. Pink mentions this frequently in is books.



So, does this mean that the advent of the internet has killed commissions? The scholars say that the way to fix this commission dilemma is pay more in wages and give more recognition (participation badges). Many successful companies have been cited as examples that this indeed does work. When reading this I often wonder if these people ever ran a company or had a job in sales.

Commission are changing, they are not dead. What has happened is the birth of variations of commissions and its structure, now being dictated by type of business. Submissions for example would be the following business types: New Business Venture,

Growth Company, Retail Big Box, Retail Specialty, and Sophisticated Sale. No these aren't all of them, but an interesting subsection for thought.

New Business Venture:

New business ventures need to have sales people, that are knowledgeable about what is being sold and produced. This often requires the person starting the company be the salesperson. This person is the ultimate sales person as they are fully tied to the company in form of equity and success. They usually get paid very little with a high amount of upside. If you are on your second sales person, then you need to expect to either pay via capital acquired during growth, or release some equity based on performance. The new business venture is the hardest of all to manage sales in, as the expectations are high and the ability to remunerate are low.

Growth Company:

Growth companies are usually chasing higher and higher revenues. Usually they can procure money and afford to hire some very talented people. Depending on product, this usually means a high base with a medium to high bonus. The idea here is you want to bring people on who can take you into the next massive growth phase.

Retail Big Box:

The only place you see commissions at the big box retailers any more is at the store management position. The ground level people rarely get commissions anymore as they are covering multiple roles and rarely know more than the average person off the street.

Retail Specialty:

So here is where you often see a full or heavy commission sales person. Think selling mattresses, maybe gym memberships or cell phone sales.

Sophisticated sale:

Think selling windmills to a wind farm where there are millions of parts, or possible sophisticated software (like a commissions system 😊). This is where you would have a very high base, and possibly very little to no bonus at all. This will allow for more cooperative selling as it is a team sales process.

Connect is an interesting concept. Remember Zig Ziglar telling his friend that sold pots and pans, to buy a set. The man responded he didn't have money. Ziglar let him know that if he wouldn't buy them, why would anyone else? Even though Hallowell talks about connect as how people connect to others, primarily managers, people also need to connect with the company. Ziglar outlined this with his specific product reference.

Ok, so we now know that there are different methods for different types of people, which is understandable, what is it that motivates people in general now? If you look at “Shine”, “Drive”, and Harvard business review’s “Compensation” you will notice some consistent themes. Motivational techniques are driven by generation, but also buy role and job. So, what can be the common themes then?

Focus. In a time of immediacy our workers lack any focus. For sales, this means that people must know multiple products and lack any real depth of knowledge of product and service they are selling. Allowing sales people to focus on their job role and become successful parts of the team and effectively close deals motivates them.



Sense of belonging. Working with a team and people you like, feeling you are part of a family can be very important to a sales person. While we have heard of the lone wolf, which runs very contrary to this statement, many other long for communication and companionship on their journey in the organization. Be giving feedback, not the kind of crap you are forced to by your HR group, but the stuff that comes from your heart, you can create a meaningful bond with reps. **Organizations should look more at being real.** This is highly important for millennial members of your team.



Money? If we start boxing groups by generation, you could land Gen X squarely here. They are a group motivated by success. Money is success and these people are constantly looking for it. This is a particular group though. They tend not to share well, and can be brutal in their communications. Guess where I land. In order to get those motivated by money to work with others, you truly have to MBO them into submission.

The problem with money solely is it can create deal cannibalism. This is when you have someone successful looking at those who aren’t and cherry picking their deals. This is not a company first method, and generally doesn’t always help the organization.

Ok, so how do you identify a sales person, how do you pay them and where to go from here?

Let’s think about traits of a sales person that are consistent and good, that all organizations should espouse to have:

- 🎯 They empathize with their customer (remember Zig Ziglar’s advice, use what your selling)

- 🌀 They do more than educate their customer (the internet did that). They challenge, they guide and provide the feedback on unknowns, making life better for the customer.
- 🌀 Silence can be golden. They have the ability to listen, to the customer and their peers.
- 🌀 They follow up, on time and are prepared.

So, are commissions dead? Again, the answer is no, but these structures are evolving. Based on the changes brought on by the sharing of information and the internet, your customer has become far more educated. The sales cycle has shortened or evaporated (think our brush sales person).



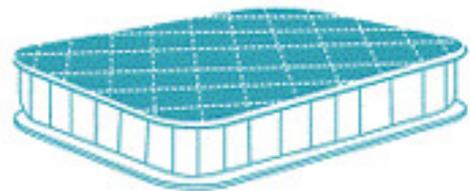
Let's look at a few ways to compensate people using commissions that may fit it some of the afore mentioned companies and styles:

- 🌀 High Risk/Unit Sales
- 🌀 Uncapped
- 🌀 Capped
- 🌀 Add-On
- 🌀 *GainSharing*

Often people think that people who have a higher influence on the purchasing decision should have higher upside. I would counter this with what role type did they fall into. I will actually demonstrate two types of plans, solely based on the company structure. As I truly believe long term sales should generally follow an MBO pattern.

High Risk/Unit Based Sales:

You find this group to be in such industries as insurance or sales. This is a plan where you make 100% of your earnings based on what you sold. In the case of insurance, you might get something like one month of the recurring charge with a residual payout. In the case of a mattress, you would get a percent of the sale according to the gross margin of the deal itself.



Capped:

Some might call this a Cap X or 2x capped. Where you have a target at risk commission with a cap. Generally, you pay a higher base (less at risk) with this model. This model fits well under the MBO style as it allows for an organization to modify the at risk to incorporate team components and company directives in this specific plan.

Now, what to do?

A level of introspection is always needed. But it comes down to what you're selling and the status of your company. In general, you should ask these questions of yourself:

- 🌀 Am I driving the right behaviors right now? Do I have cannibalism, or team cooperation?
- 🌀 What is my overall cost of sales and how can I model to optimize it?
- 🌀 Do we have a sales process?
- 🌀 Do I have the right people to execute on that process?
- 🌀 Are we having fun?

I put that last one in, as it is widely unrecognized as a question, but is just as critical.

People who enjoy their jobs tend to do far better.



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