

# **CASE STUDY**

## **SALES COMPENSATION DESIGN**

# Problem Statement

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Client with large sales team experiencing high commission costs relative to sales volume

## Details

**Client Industry:** Financial Services

**Geographic Reach:** National Presence

**Sales Team Size:** 1000 – 1500

**Sales Compensation:** Straight Commission with draw

## Related Issues

1. Inconsistent sales performance
2. Large percentage of sales team producing at very low volume
3. Inability to motivate low performers to higher performance levels

Result is high product marginal cost, burdensome payroll and plan administration, low average sales volume



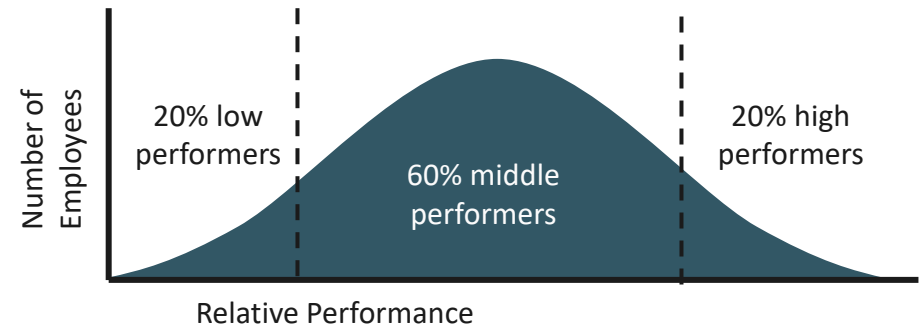
# Root Cause

Discovery was conducted to validate hypothesis of sub optimal incentive compensation strategy resulting in left skewed performance distribution

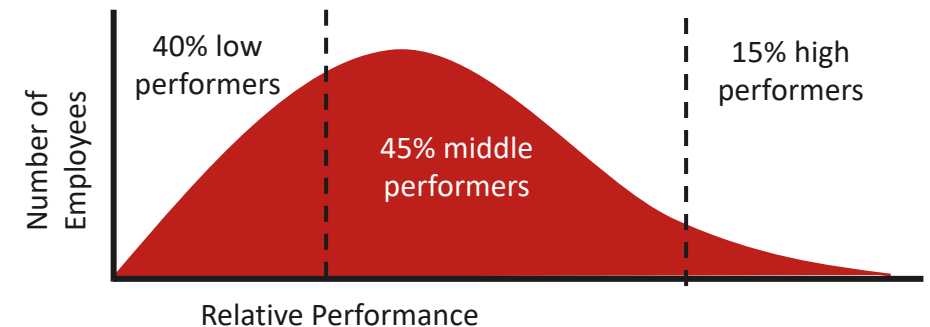
## Findings

1. Client did not have any approved plan template. Guidelines existed, but plans were largely customized for individuals
2. A flat commission of 60% was routinely offered to sales team members regardless of performance resulting in relatively high pay for poor performance
3. Records and administration of plans and payroll largely manual and unable to be batched

### Ideal distribution

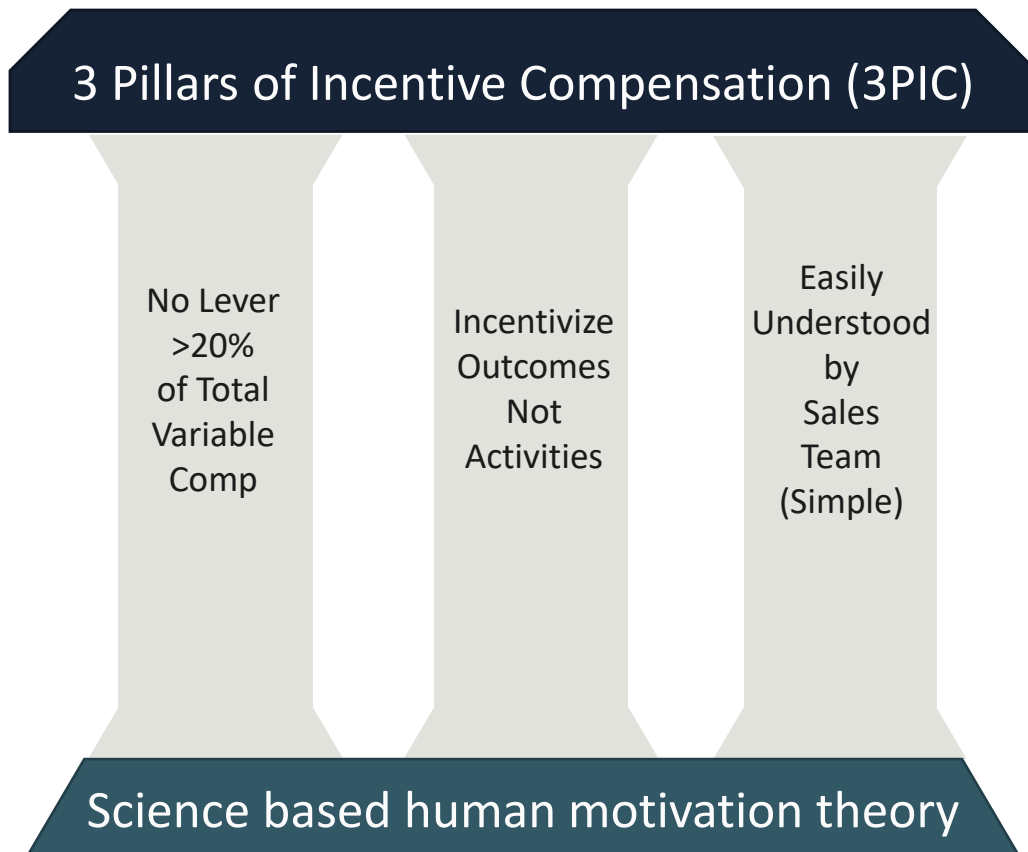


### Client distribution



# Solution

Using the 3PIC framework, a single sales commission schedule was created using a tiered structure



## New Plan

	Commission Split	Sales Volume
<b>Tier 1</b>	30%	\$0 - \$5M
<b>Tier 2</b>	40%	\$5M - \$12M
<b>Tier 3</b>	50%	\$12M - \$25M
<b>Tier 4</b>	60%	\$25M +

Tiers are stepped and not retroactive to avoid drop off in motivation after reaching new tier



# Impact

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Client realized annual commission **savings of >\$4M** based on prior years sales volume

## IMPACT

Low performers, who were often creating negative product margin due to resource inefficiency, no longer receiving comfortable income

High performer's pay remained at current state

Labor burden for administration and overhead greatly reduced

## Result

Low performers motivated to achieve profitable sales results or made decision to move on resulting in higher margins

No negative impact to overall sales volume

Reduced overhead resulting in higher product margins

