THE TIMES THEY ARE A'CHANGIN': SALES COMPENSATION IN THE COPIER INDUSTRY

Money isn't everything, not in life and not in business. But, as sales guru Zig Zigler notes, "it's reasonably close to oxygen on the 'gotta have it' scale." Many factors – healthy relationships with coworkers, opportunities for recognition or advancement, the quality of donuts and coffee in the break room – contribute to an employee's overall job satisfaction. Without money, however, none of these other things matter, and this is particularly true for members of a sales organization. Good salespeople are competitive, and the best among them get a rush from setting and meeting ambitious goals. But they also enjoy eating and paying their mortgages, as do their employers. And that's where compensation enters the equation. A good compensation plan is a powerful recruiting tool, and properly structured, it will enable both the rep and the company to succeed financially.

In an article for Salary.com, Dwight Ueda writes, "The way salespeople conduct themselves is often a reflection of the company's sales compensation program; and how well the company does is often a reflection of the effectiveness of its commission program. A well designed sales compensation program focuses salespeople on activities that support the company's business objectives, and, in turn, rewards those salespeople for their contributions." It sounds simple enough: a good compensation program equals a successful company; a successful company equals a satisfied sales force. But is it really so simple? Is anything?

In the office products industry, the answer is almost certainly "no." Over the past decade everything from the equipment itself to the knowledge required to sell and service it has grown more complex, and compensation plans have followed suit. The good old days of selling boxes and making money on those sales aren't exactly over, but as any veteran of the game will tell you, it sure ain't what it used to be.

We recently spoke with several independent copier dealers about their sales compensation plans, and, tellingly, the features that are most similar from plan to plan are those on the fringe, like health insurance, company-sponsored retirement plans, reimbursement for transportation and communication expenses, and periodic performance bonuses, all of which nearly every dealer is obliged to offer its sales employees. But these features are ultimately secondary. The real nitty-gritty of any compensation package will always be salary, commission, or some combination of the two. Not surprisingly, no two dealers approach compensation in quite the same way. Nevertheless, certain trends stand out.

A Few Plans to Ponder

The examples that follow are based on real plans being used by dealers of varying size in different locations throughout the country. None are particularly unusual – you might recognize some of their features in your own company's compensation plan. And yet, by examining each of these three plans, we are able to gauge with unusual clarity where we've been, where we are now, and where we as an industry are headed.

Compensation Plan #1: Company X

Salary: $2000 per month during a salesperson's first three months on the job. After that, the rep graduates to a $2000 draw against commission.

Commission: Reps are required to meet a minimum quota of $30,000 in monthly sales. On monthly sales of between $30,000 and $40,000, they earn 30% of gross profit. On sales from $40,000 to $50,000, they earn 35% of gross profit. And on sales in excess of $50,000 per month, they earn 40% of gross profit.

Fast Facts: Because profit margins have steadily narrowed in recent years, it's been imperative that sales reps sell more machines to make up the difference. Company X has dealt with this problem by increasing sales quotas by fifty percent over the past decade.

The decision maker at Company X reports that market saturation has had a huge effect on sales demographics. Whereas new customers once made up a large segment of his customer base, today new business comprises less than 10% of total sales.

Though the decision maker at Company X believes that straight commission is still the best form of compensation, he reports that it has become more difficult than ever to attract new reps and predicts that it won't be long before he's forced to begin offering a salary. It won't, however, be a welcome change. Salaried salespeople, he argues, require more supervision than reps who work only on commission. "You have to give them more direction and be with them all the time and make sure they're doing their jobs."

Compensation Plan #2: Company Y

Salary: $1600 to $2500 per month. At Company Y, salary increases with experience and it is tied to monthly revenue quotas. A salesperson earning a monthly salary of $2000, for example, would be assigned a monthly quota of $25,000.

Commission: Commission at Company Y is variable, and it is paid only if salespeople have met their quotas. For total monthly sales between $15,000 and $20,000, salespeople earn 20% of gross profit. For total sales between $20,000 and $30,000, they earn 25% of gross profit. And for sales in excess of $30,000, they earn 30% of gross profit.

Fast Facts: Five years ago, Company Y was paying its sales reps straight commission, but, like Company X, it found that its commission-only plan was scaring off job applicants.

Now that it pays its salespeople a salary, Company Y has also instituted measures to keep the reps on their toes: sales reps who fail to meet their monthly quotas are put on probation and their salaries are reduced until they are able to once again deliver the desired results.

Though software solutions are not yet a significant source of revenue for Company Y, a spokesperson says he expects that they will become more profitable within the next few years, as more companies decide to take the plunge. "Once you get that window open," he says, "it's a freight train." What's stopping this runaway train from getting started? It may be the sales reps themselves, many of whom "are still intimidated by the technology."

Compensation Plan #3: Company Z

Salary: $2500 to $3500 per month. Like Company Y, Company Z also calculates monthly salary on the basis of assigned monthly revenue quotas. Since the salaries of Company Z's salespeople are higher than those of the reps working for Company Y, it makes sense that their quotas would be higher too. And so they are: Company Z salespeople making a monthly salary of $2500 are expected to bring in $40,000 per month in sales revenue. Salespeople making $3500 per month must bring in $55,000.

Commission: At this company, salespeople who achieve less than 60% of their assigned monthly revenue quotas will earn 23% of gross profit. Those selling at between 61 and 80 percent of quota will earn 27% of gross profit, and those meeting more than 81% of quota will make 36% of gross profit. Company Z also offers its salespeople significant bonuses and commission hikes for netting new customers and for selling high-volume color machines and professional services.

Fast Facts: Unlike Companies X and Y, Company Z has historically paid its sales reps a salary. One recent addition to the plan: a minimum commission of between one and two percent is paid to reps who sell machines below cost. Located in a particularly competitive market, Company Z's salespeople are often forced to choose between selling below cost or losing the sale. Company Z devised the minimum commission provision to encourage its reps to do what they have to do to make the sale. "No matter what they sell it for, they're going to get something," says a company representative.

Like Company Y and nearly everyone else in the industry, Company Z anticipates significantly more sales of software and workflow solutions in the future, even though they are not currently a major source of revenue. The company plans to combat its sales staff's discomfort with solution selling by hiring a professional services specialist within the next six months.

Generation Gap?

In our talks with independent dealers about their compensation plans, we noticed that certain themes cropped up time and time again. The top three? Competition, solutions, and financial security.

This has always been a highly-competitive industry, but never before has the competition been quite as intense as it is today. Twenty years ago, a new customer in this industry was also a newcomer to this industry: someone who had never before purchased a copier. Today, the market is saturated, and as often as not, one dealership's "new" customer is its competitor's former client. This dog-eat-dog environment has forced dealers to reevaluate their compensation programs in order to attract and retain the best reps – if the dealership down the street has a better comp plan, chances are good that it will soon have a better sales team, too. A second trend we've noticed is that several companies, including the above-mentioned Company Z, have begun promising their sales reps small commissions for machines sold below cost. Whereas it once would have been unthinkable to reward a rep for losing the company money, today it is becoming more commonplace as the tight market forces dealers to undercut one another to make the sale.

Solutions, as always, are just around the corner. Every dealer we talked to agreed that the days of selling "just copiers" are coming to an end and yet, without fail, workflow and software solutions remain just a tiny fraction of overall sales revenue. No one seems to know when solution sales will pick up speed, but everyone believes that when it happens, they had better be ready. Some dealers are preparing for the days ahead by investing in better technical training for their salespeople, others have begun to hire solution specialists to work directly with their clients' IT departments, and many are contemplating both. The consensus is that today's salespeople do not have the level of technical expertise needed to sell the solutions; if they want to continue to thrive in this business, they'll have to get up to speed.

The most obvious change we've noticed in compensation plans is in the number of dealers who have recently added or are planning to add a salary component to their compensation package. And the most striking aspect of this change is how unhappy many owners and sales managers are with it. These people are changing their plans not because they want to, but because they feel they have no other choice if they want to attract talented employees. The ideals of industry veterans and the desires of today's job seekers have never been more divergent. A generation gap, it seems, has emerged.

Loren Davis of Davis Business Machines believes that salaries have become a staple in the industry because young salespeople are too concerned with "knowing just what's going to be on that paycheck every month." He says that "people are not risk-takers anymore. They want security. Everybody you talk to wants that secure paycheck." Davis says that if he were beginning his career as a salesman today, he would prefer to be paid on straight commission, although he acknowledges that a guaranteed paycheck is an understandable temptation for debt-ridden graduates. In other words, he understands why it's become necessary to offer salary, but that doesn't mean he likes it.

Terry Cowan, the sales manager at Atlanta-based Southern Office Machines, looks more favorably upon sales salaries. The fear among sales managers is always that salespeople who are paid a salary will become complacent about meeting and exceeding their goals, but Cowan hasn't found this to be a problem. On the contrary, he says that investing in quality long-term employees has had a positive effect on his company's bottom line. "If you pay people a fair commission and a fair salary, they'll work for you." He adds that paying his sales reps salary in addition to commission has helped him to reduce employee turnover. "Consistency within a sales team is very important. People buy from people, and the ability of our reps to build trusting, consistent relationships with customers is extremely important to us."

Cowan is, for the moment, in the minority. To varying degrees, the majority of owners and managers long for the days when commission sales attracted, rather than repelled, the best and the brightest. But they may not be in the majority for much longer. Today's salespeople are entering an industry in flux: competition is growing, technology is accelerating, and, like it or not, salary is becoming a standard feature of compensation plans. To be sure, the times they are a'changin', and there's no knowing how far this industry will evolve within the next twenty years. But one thing is certain: the people you hire today will be running your business tomorrow. With that in mind, savvy dealers will continually reevaluate their compensation plans to make sure they're getting the most out of what, despite the changing times, is still the most powerful recruiting tool in their arsenal.