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Incentives for the Sales Force Commission Verses Bonus

By Jen Givens

Compensating the sales force operates from a basic principle: *money drives behavior*. Although this principle is pretty simple, incenting a sales team to sell and paying them fairly at an affordable cost can be quite the balancing act. Both commission and bonus plans play a role in attracting, motivating, and retaining sales employees, but how does a company determine which to use?

Commission Plans and the Individual

A commission plan pays the sales employee on a percentage of sales or profits that he/she brings directly to the company. The compensation pay mix for sales employees is heavily weighted through variable pay. Base salaries, if any, are often set low and commission payments account for the majority of total cash compensation. This works for the company because it limits the fixed costs; but, it only works for the individual sales team member if he/she is a successful seller.

This strategy attracts result-oriented salespeople and keeps them motivated as they are paid for each individual sale. Their commission rate is typically multiplied by sales or gross profits to determine their payout. A well-designed commission structure pays employees well without threatening company profits.

This model encourages poor performers to leave the company. However, it could also drive unwanted attrition of top performers, if a competitor is willing to pay a higher commission rate.

Bonus Plans and Team Players

Bonus plans have a role in the sales force world, too. Depending on influencing factors, such as a stable market, client base or slow growth, bonus plans can assist in retaining and motivating the sales team to sell while managing the company budget. These plans structure the pay mix with a higher fixed portion of total compensation. Typically, the base salary will encompass the majority of the employee's total pay and is often targeted to competitive market levels. The variable portion, or bonus, is only paid out if certain company and individual targets are met.

These plans attract salespeople who want to stay with the company, build a career, and have additional duties outside of selling. With a bonus plan, incentive payments are tied to achieving specific targets at the individual and company level. The company may also build into the bonus plan metrics outside of sales, which may include achievement of strategic plans or taking part in long-term projects. This strategy promotes more of a team based approach and allows salespeople to earn a decent living if established goals aren't achieved at target.

Commission Verses Bonus Plan Attributes Chart

	Selling Process				Company Culture					Ability to Forecast	
	Employee Turnover	Individual vs Team	Sales	Cycles	Management	Non-Sales Duties	Territories	Earnings	Ratio	Market	Data
Commission Plan	*High*	*Individual*	*Low carryover*	*Short*	*Little oversight*	*None*	*Equitable*	*Uncapped*	*Salesforce expense to Sales*	*Volatile*	*Not measurable*
Bonus Plan	*Moderate*	*Team*	*High carryover*	*Long*	*Involved in sales effort*	*Some*	*Vary*	*Managed*	*Salesforce expense to Budget*	*Stable*	*Data availability*

Commission Verses Bonus Plan Attributes Listing

	Commission	Bonus
Selling Process	· Turnover is high · Individual skill and effort drives success · Outside factors are not a large influence · Selling cycles tend to be shorter · Performance measures are straight forward · Frequent payouts · Commission is “automatic” and rewards recent efforts	· Turnover is low to moderate · Success is team driven · Outside factors influence salesforce · Selling cycles are longer · Performance measures are more complex · Incentives are paid less frequently · Company can drive selling behaviors by controlling targets
Company Culture	· Low management involvement · Commission is driven on achieved results (Expense/Sales) · Little to none administrative tasks · Equitable territories · Uncapped commissions	· Higher management involvement · Budget is managed to control total pay · Administrative tasks are required (i.e. customer service) · Territories don’t have to be equitable; tied to appropriate targets · Pay is managed at employee level
Ability to Forecast	· Data is not typically available for accurate quota setting · Market volatility is high · Hard to predict future demand	· Data is generally available · Market is more stable and predictable · Management can predict future demand

In Perspective

As you can see from the illustrations, there is not a “one size fits all” sales plan that works for every company. Linking company strategy with internal and external factors will help shape a plan that drives bottom-line success. An effective sales compensation plan can provide balance between financial needs and desires. Effective compensation plans are thought through and structured, with the appropriate pay mix of salary, commission, bonus, and other incentives. They should also be designed so that they are easily understood, implemented, and managed. Most of all, sales compensation plans need to create and promote a “win-win” for both the company and the sales force.

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