



## Quantum Profit Gram #18

“Sales Compensation Incentives” always sparks debate amongst distribution execs. What are the pros, cons and blind spots for traditional plans based on gross margin dollars? Although you want to reward getting more margin dollars, it can be risky to ignore the rest of the whole net-profit story. Here's why:

- Accounts of different types, sizes and buying patterns will have widely-varying, total service costs. Even when margin rates are good, customer net profits can range from great to disastrous. (And the reps get paid, either way.)
- Many plans pay the same for both profitable penetration of new accounts, and for the maintenance (read: milking) of inherited accounts.
- Your customers are starting to consider the actual ROI on the rep compensation built into their price. Shouldn't you?

Think about that last point in light of reps who call on your own firm:

- How many of your suppliers' reps are actually worth seeing?
- How many deliver a good ROI if they cost you about 5%, as built into your purchase pricing?
- What are your vendors paying the reps to accomplish vs what do you need them to do?
- Now, what conclusions are your customers drawing when they're thinking the same about your reps?

One distributor analyzed this, comparing rep commissions based on margin dollars vs rep commissions based on net profit. The results were shocking. Their analytical steps were:

- generate customer profitability ranking reports using Waypoint Analytics;
- divide the reps' compensation by both margin dollars and NBC (Net Before Compensation) to reveal the percentage spreads:
  - total rep comp averaged just over 19% of the total gross margin dollars (WayPoint accounted for real net profit, excluding loads and including rebates)
  - total rep comp as a percent of the net profit for all commissionable accounts averaged 62%, but had a range from 24% to over 700%
  - for selected veteran pure-commission reps, the percentages of margin dollars vs net profit dollars were: 25%/55%; 22%/44%; 33%/120%; and 33%/177% for the biggest hitter who happened to have several super-losing accounts

Paying a rep 177% of territory net profits is the result, not the root cause of the problem. With customer net profit information, you can design incentive plans that will grow margins, and that your best reps will love. You'll also get significant profit boosts *and* customer value satisfaction.

For more about how to do this, go to [www.merrifield.com](http://www.merrifield.com), and see Article 4.11 and Exhibit 59. Free webinar: "**How to Create a Powerful New Kind of Sales Incentive Plan**". Register at <https://www2.gotomeeting.com/register/744110290>.

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## Sales Rep Incentives Based On Customer Net Profit?



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