



# Sales Compensation: How to Analyze & Strategize

# Today's Topics

- Industry Model Analysis
- Return On Investment Analysis
- MPS/MNS/Services Compensation Models
- My Favorite

# Luis Gonzalez

- Founded MOS Imaging Systems in South Florida 1986
- Sharp Dealer Council 10 Years | Dealer Council Chairman
- Sold To Sharp Electronics 2007
- Sharp Business Systems Branch President
- Sharp Business Systems Sales and Marketing Director
- Sharp Electronics Senior Vice President (Corporate)
- Founder of SalesScoreKeeper

# INDUSTRY MODEL SALES COMPENSATION ANALYSIS

# Hanson Model

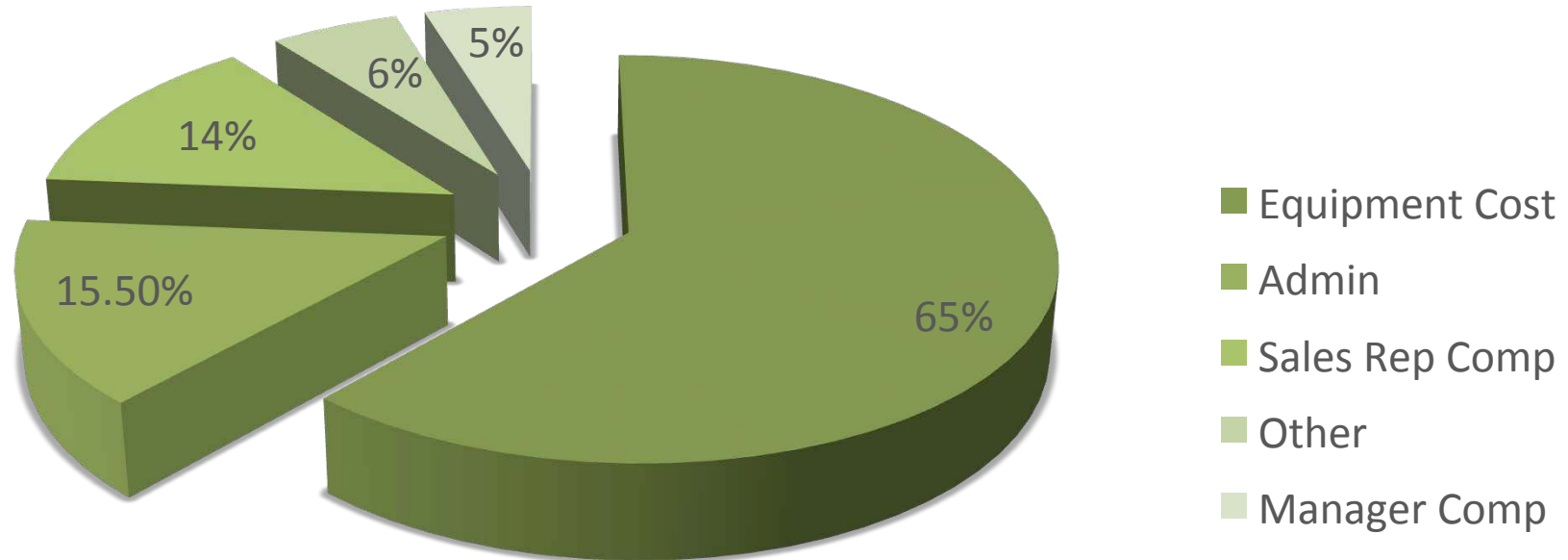
- Starting Point / Compass / Benchmarking
- Industry Gold Standard Model
- Proven Results

% of Sales	Sales Category	Gross Profit %	Sales Expense	Admin Expense	Profit ( Loss) %	Weighted Profit %
49	Equipment	35.0	(25.0)	(15.5)	(5.5)	(2.7)
19	Supplies	45.0		(15.5)	29.5	5.6
30	Service	50.0		(15.5)	34.5	10.4
2	Rental	50.0		(15.5)	34.5	.7
100		41.5	(12.0)	(15.5)		14.0

# Equipment Sales Revenue Breakdown

## Equipment Sales 35% Gross Profit

\*5.5% Loss

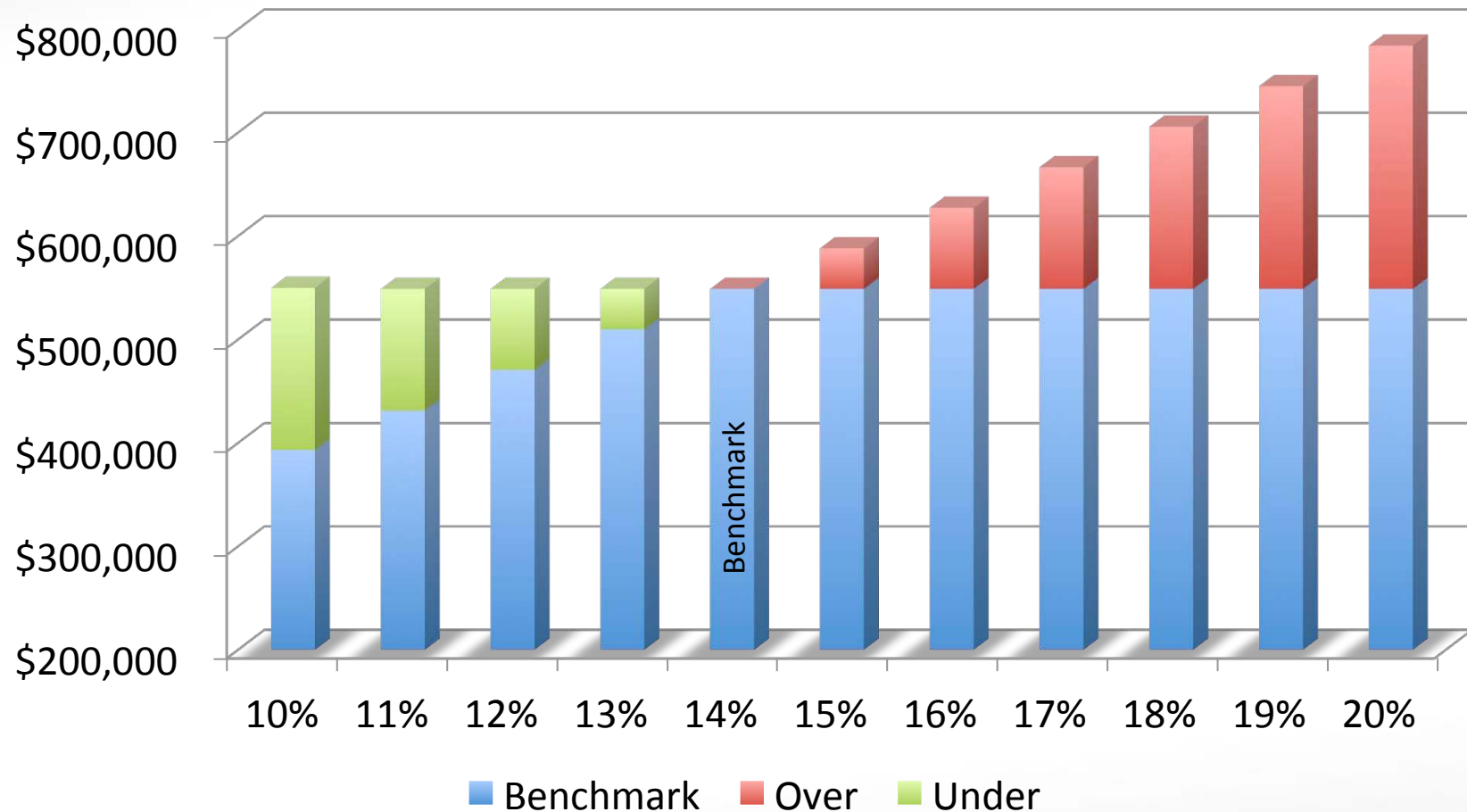


# Sales Expense Breakdown (25%)

% of Equipment Revenue



# Sales Compensation Benchmarks



\$8.0M Total Sales | \$3.9 Equipment Sales



# Typical Sales Compensation Plans

<b>Annual Quota</b>	\$360,000		\$480,000	
<b>Monthly Quota</b>	\$30,000	% of Sale	\$40,000	% of Sale
<b>Monthly Salary</b>	\$2,500	8.3%	\$2,500	6.3%
<b>Quarterly Bonus</b>	\$750	2.5%	\$1,200	3.0%
<b>Commissions</b>	\$950	3.2%	\$1,880	4.7%
<b>Monthly Income</b>	\$4,200	14%	\$5,700	14%
<b>Annual Income</b>	\$50,400		\$66,960	

# Compensation Breakdown

\$10,000 Monthly Sales

Sales	\$10,000	\$10,000	\$10,000	\$10,000
Gross Profit	\$500	\$1,000	\$2,000	\$3,000
Sales GP %	5%	10%	20%	30%
Commission	\$150	\$300	\$600	\$900
Bonus	\$100	\$100	\$100	\$100
Total Comp	\$2,750	\$2,900	\$3,200	\$3,500
Comp % of Revenue	28%	29%	32%	35%
Dealer Total Profit	(\$1,425)	(\$1,150)	(\$600)	(\$50)
Dealer Profit %	(14%)	(10%)	(6%)	(.5%)

Dealer PAC 15% | Lease Points 5% | Manager 5% | Other 6% | No ADMIN  
Compensation Salary \$30k | 30% of GP | 1% Bonus

# Compensation Breakdown

\$30,000 Monthly Sales

Sales	\$30,000	\$30,000	\$30,000	\$30,000
Gross Profit	\$1,500	\$3,000	\$6,000	\$9,000
Sales GP %	5%	10%	20%	30%
Commission	\$450	\$900	\$1,800	\$2,700
Bonus	\$300	\$300	\$300	\$300
Total Comp	\$3,250	\$3,700	\$4,600	\$5,500
Comp % of Revenue	11%	12%	15%	18%
Dealer Total Profit	\$725	\$1,550	\$3,200	\$4,850
Dealer Profit %	2%	5%	10%	15%

Dealer PAC 15% | Lease Points 5% | Manager 5% | Other 6% | No ADMIN  
Compensation Salary \$30k | 30% of GP | 1% Bonus

# Compensation Breakdown

\$50,000 Monthly Sales

Sales	\$50,000	\$50,000	\$50,000	\$50,000
Gross Profit	\$2,500	\$5,000	\$10,000	\$2,500
Sales GP%	5%	10%	20%	30%
Commission	\$750	\$1,500	\$3,000	\$4,500
Bonus	\$500	\$500	\$500	\$500
Total Comp	\$3,750	\$4,500	\$6,000	\$7,500
Comp % of Revenue	8%	9%	12%	15%
Dealer Total Profit	\$2,875	\$4,250	\$7,000	\$9,750
Dealer Profit %	6%	8%	13%	18%

Dealer PAC 15% | Lease Points 5% | Manager 5% | Other 6% | No ADMIN  
Compensation Salary \$30k | 30% of GP | 1% Bonus

# Summary

- Salary Plays Largest Role on Sales Compensation
- Low Volume Sales Number Affect Bottom Line Most
- High Gross Profit Can Return High % of Sales
- You Must Have Safe Guards In Compensation Plan
- Build Your Plans From Quota
- Benchmark Very Difficult To Achieve
- Paying A High Percentage of Revenue Is Not Always Bad

# RETURN ON INVESTMENT COMPENSATION ANALYSIS

## Return On Investment

$$\frac{\text{Gain from Investment} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

# What Is Your Investment?

- Salary, Commissions, Bonus
- Training
- Taxes, Health Insurance, State Fees
- Subscriptions, Dues, Software Licenses
- IT Infrastructure, IT Support, Hardware
- Management Cost, Sales Management
- Back Office Cost, Deal Processing Cost



# What Is Your Return?

- Hardware Sales Profits
- Hardware Purchase Quota Incentives
- Manufacture Incentives
- Service Revenues, Supply Sales
- Lease Bonus Points, Sales And Additional Revenue
- Client Referrals.

# Do The math.....

## Return On Investment

$$\frac{\text{Gain from Investment} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

- Gain from Investment
  - Sales Gross Profits
  - Service Gross Profits
  - Lease Points
  - Manufacture Discounts
- Cost of Investment
  - Salary
  - Commission and Bonus
  - Taxes, Fringe Benefits
  - Subscription, Licenses Fees
  - Management Cost

# ROI Example

Total Sales	\$40,000
Profit from Sales	\$11,400
Commissions	(\$1,200)
Bonus	(\$400)
Salary	(\$2,500)
Benefits/Taxes*	(\$615)
Misc.	(\$200)
Total Investment	\$4,915
Net Profit	\$6,485
ROI	132%

10% Sales Gross Profit

Total Sales	\$20,000
Profit from Sales	\$5,700
Commissions	(\$600)
Bonus	(\$200)
Salary	(\$2,500)
Benefits/Taxes*	(\$414)
Misc.	(\$200)
Total Investment	\$3,914
Net Profit	\$1,786
ROI	45%

10% Sales Gross Profit

# Why look at Sales Rep(s) and/or Team ROI?

- Compare Between Teams And Individual Reps.
- See Progress In Sales Trends
- Establish A Baseline Of Expectations
- Explore New Ways To Compensate
- Know What Incentives Can Be Budgeted
- Compensate Your Managers
- Make Smart Decisions With Concrete Data
- Cut Losses

# Maximize Your Investment Dollars!

- Weed Out Low Or No Returns
- Make Sure Your Sales Managers Are Aware Of Their Team's Investment
- Look For Returns By Individuals On Sales Teams
- Reallocate Bad Investments
- Share Information With Your Sales Reps
- Look For High Returns And Duplicate
- Get Creative

# COMPENSATION IDEAS

# Industry Analysts, Inc. November 2012

## “Your Reps are Starving”

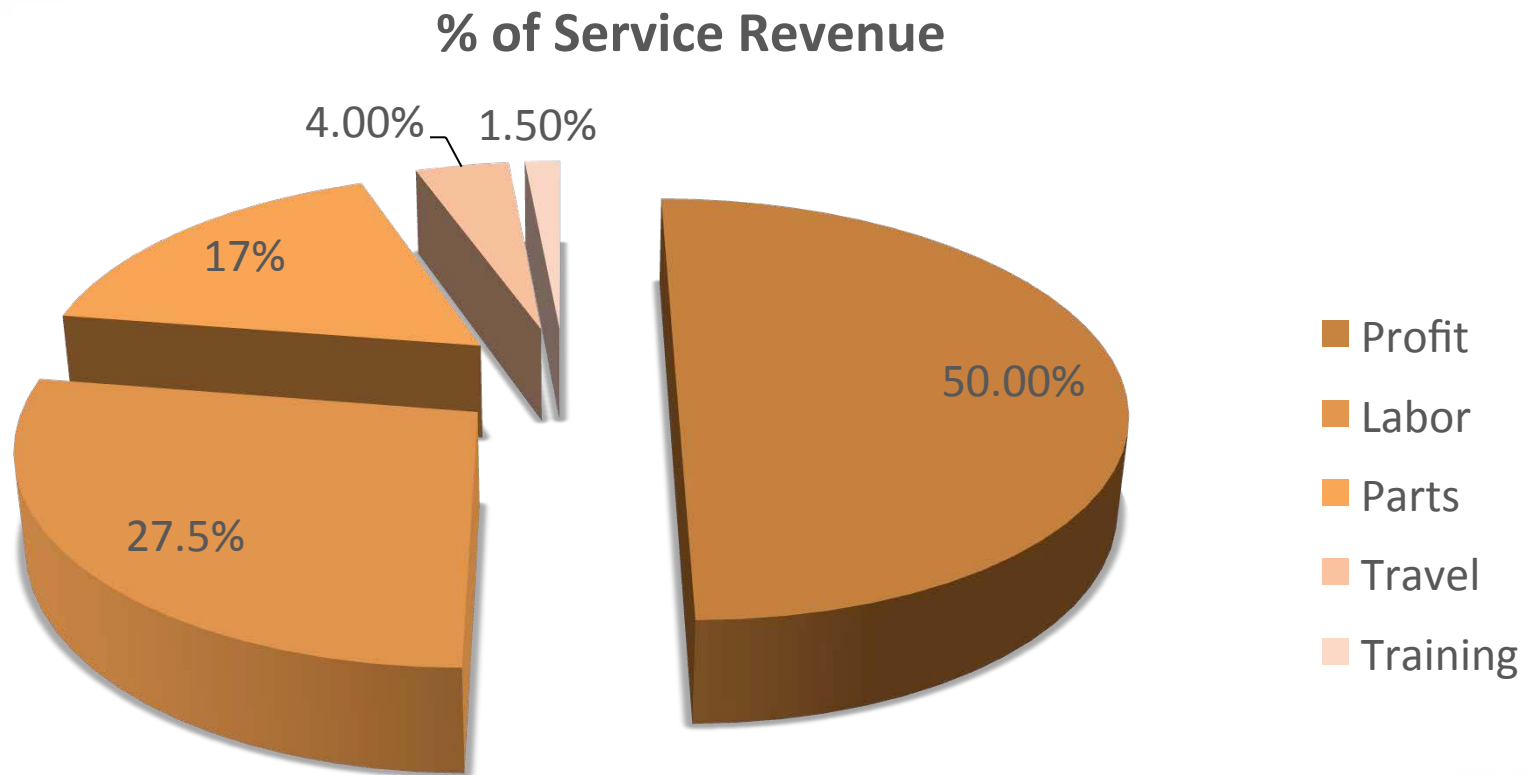
Is there a solution? Of course there is. Why would I raise these problems if they couldn't be solved? Although much has changed around us, one thing remains the same. You make little or nothing on hardware placements. But you make a ton on each page printed or copied. In fact, some would say you lose money on just hardware placements. So, why do we continue to comp our reps on an activity that loses money? Why not encourage them to generate *incremental* page volume. In other words, Pay them to do the thing that (gasp) makes you money.

I know, conversion to a page based comp plan means you'll have to know how many pages each rep generates. And your accounting systems will have to change to comp sales reps on a timely basis. But the potential payoff is huge.

I've often said that it's far more profitable for you to increase volume on existing hardware than to sell new hardware to generate the same volume. So why not direct your sales reps to do just that? Sales reps are coin operated. They'll do exactly what you pay them to do. So why not pay them to do the things that increase your profits and, consequently, their earnings.

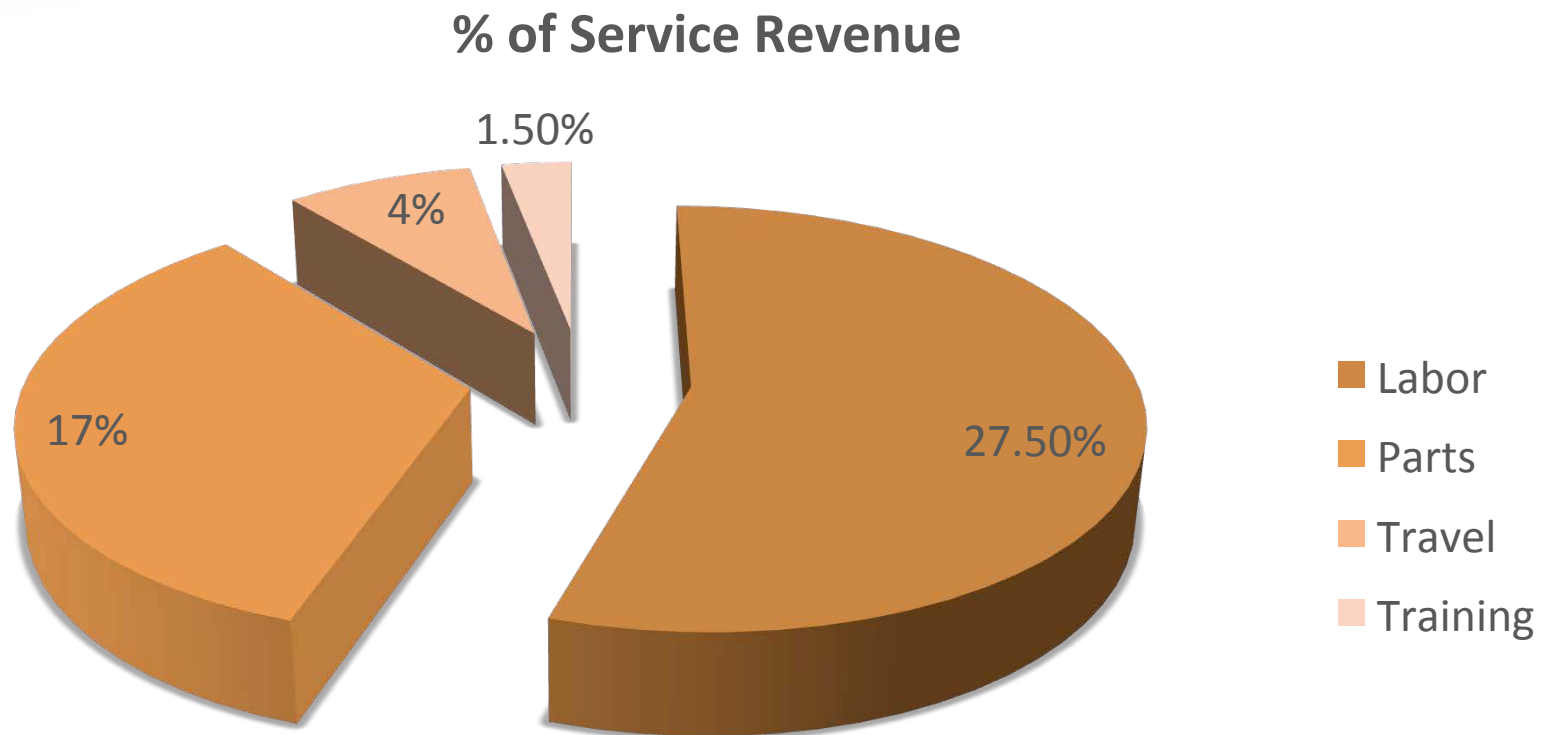
*By Lou Slawetsky, CEO Industry Analysts, Inc.*

# Service Revenue Breakdown



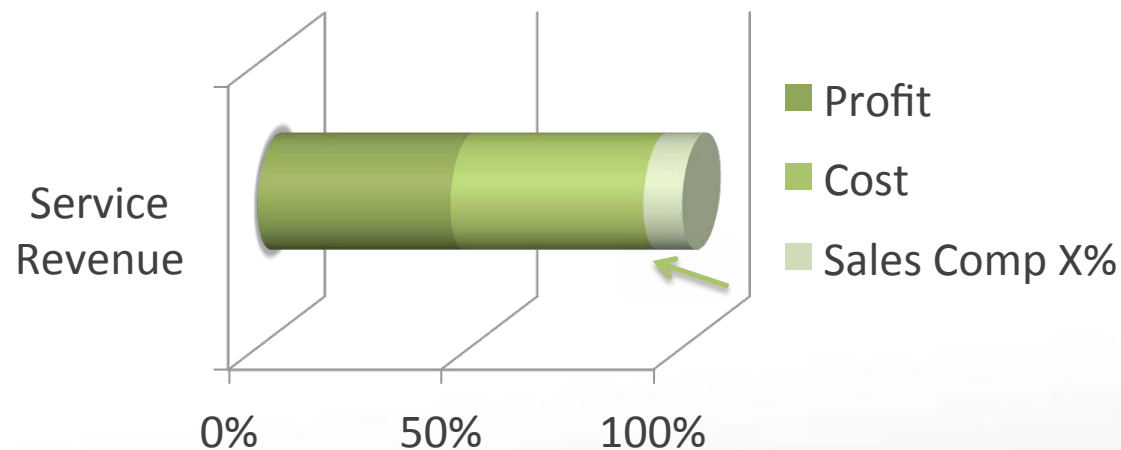


# Service Expense Breakdown (50%)



# Pricing Services for Sales Compensation

- Don't Steal From Peter To Pay Paul
- Build In Sales Commission To Pay Sales Commission
- One Size Does Not Fit All In MPS
- Have “Out Cost Method” To Cover Compensation Cost
- Make Sure Published Prices Include Sales Comp Cost



# Basic Compensation Tips

- Build Your Compensation Plans Around Company Goals
- Document Your Compensation Plan With Details Of Company Goals And Rewards For Achieving Them
- Pay (More) When Company Goals Are Achieved
- Always Make Services Whole Before Calculating Equipment Commissions

# Company Goals That Can Be Rewarded

- Net New Clients
- Net New Devices Under Contract
- Managed Print Contracts
- Managed Network Service Contracts
- Short/Long Term Rentals
- Client Retention
- Customer Base Billing Growth
- No Contract Edits



Increase Monthly  
Profitable Revenues  
by Providing More Services  
to Current and New Clients

# Traditional Transactional Event Compensation

- Sales Professionals Get Paid To Sell New Equipment At A Profit
- Compensation Is Paid For Selling Services At “Published Prices”
- Services Are Paid As A Percentage Of First Year Base
- Services Are Paid Upfront



# COMPENSATION PLANS

## % of First Year Service

- Build Services Pricing Model That Has Sales Compensation Margin Built In
- Pay “X” Percentage Of Total Contracted Services
- Pay On First Year Services With Equipment Compensation
- Pros
  - Sell Contracted Services
  - Get Services Sales At Listed Profitable Prices
  - Easy To Administer
- Cons
  - Company Takes Commission Cost Upfront
  - No Incentive To Maintain Account
  - Transactional Compensation



# Difference in Contracted Pages

- Build Services Pricing Model That Has Sales Compensation Margin Built In
- Provide Average Billing Of Current Client Information
- Pay Percentage On Difference Between Average Historical Use And New Contracted Amount
- Pros
  - Increase Current Contracted Amounts
  - Avoid Base Billing Erosion
  - Promote The Capture Of New Devices
- Cons
  - Difficult To Administer
  - Commission Could Be Insignificant
  - Difficult To Find New Pages



# % of Monthly Revenue

- Build Services Pricing Model That Has Sales Compensation Margin Built In
- Pay “X”% Of Monthly Contracted Services
- Sales Professional Gets Paid For All Revenues Generated For His Contract
- Pros
  - Sales Professional Is Committed To Engage Client On On Going Basis
  - Commission Are Paid As Earned, Less Company Exposure
  - Build In Sales Professional Retention
- Cons
  - Difficult To Administer
  - Creates Complacency For Sales Professional, Guarantee Income

# Pay Gross Profit %

- Build Services Pricing Model That Has Sales Compensation Margin Built In
- Pay Sales Professional On “X” Period % Of Gross Profit Generated By Services Contract
- Pros
  - Ensure Sales Professional Are Selling Profitable Contracts
  - Limited Exposure To Overpaying On Non Performing Contracts
  - Sales Professional Has Interest In Making Relationship Profitable
- Cons
  - VERY VERY Difficult To Administer

# Pay On Contracted Devices

- Build Services Pricing Model That Has Sales Compensation Margin Built In
- Pay Flat Fee On Contracted Devices Under Services Contract
- Pay At Time Of Contracting One Time
- Pros
  - Sales Professional Are On The Look Out For New Devices/\$\$
  - Very Easy To Administer
  - Simple Program To Build And Launch
- Cons
  - Exposure To Paying On Unprofitable Devices
  - No Follow Up Incentive For Sales Professional
  - Upfront Financial Exposure

# Account Centric Growth Based

- Build Services Pricing Model That Has Sales Compensation Margin Built In
- Provide Sales Professional With Account(s)/Assignment Value
- Pay Sales Professional A % Of The Account Value Increase
- Pro
  - Account Centric Pay Model
  - Great At Engaging Sales Professional With Company Goals
  - Limited Financial Exposure - Pay As You Earn
- Cons
  - VERY VERY VERY Difficult To Administer
  - Breaks Current Equipment Centric Model
  - Requires Very Sophisticated Sales Professional

# My Favorite



- Percentage Of Monthly Invoice For Contracted Services MPS/MNS
- Percentage Determined By Contracted Profitability At Set Up, Pay Percentage Is Scalable
- Annual Growth Requirements
  - New Year- New Baseline
- All Service Commissions Pooled And Paid As Percentage Of Monthly/Quarterly Equipment Quota

# My Favorite



- Pros
  - Sales Professionals Are Incented To Sell Profitable Services
  - Sliding Pay Scales Linked To Gross Profit Allows Flexibility
  - Sales Professionals Are Motivated To Grow Account Billings
  - Sales Professional Must Grow Account To Maintain Compensation After First Year
  - Annuity Compensation Is Still Triggered By Equipment Sales Performance
  - Create “Golden Handcuffs”- Sales Professional Retention

# My Favorite



- Cons
  - Difficult To Administer
  - Complex To Create And Launch
  - Requires High Level Sales Professional
  - Must Be Able To Provide New On Going Service Offerings



# Closing Thoughts

- Start With Building Service Programs That Have Sales Compensation Margin
- Communicate Your Company Goals And Reward Obtainment Thru A Sales Compensation Program
- Work With Inside Your Systems Boundaries
- One Size Does Not Fit All
- Sales Professional Will Sell What They Get Paid To Sell – Yes They Are Coin Operated



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