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Writing a Compensation Plan for Your Sales Reps

In my business we belong to several trade organizations. Some are for continuing education and some are for the specific software we use. But my favorite is called The Payroll Group because it is questions and banter about our industry from people who are actually in the trenches doing the same job that I do. So I have the opportunity to learn a lot and I also get to help others by sharing my knowledge.

What does this have to do with compensation plans for sales reps you might ask?! Well, I have noticed over the last several years as a member of The Payroll Group that one of the most frequently asked questions is “how are you compensating your sales people?” Now there is a lot of technical knowledge that you need in order to run a payroll company, so I find it interesting that we are all struggling with the same thing. The “how much to pay our sales person?” issue. But I have learned a lot of valuable lessons while trying to answer this question myself.

How do you go about creating a compensation package for sales reps?

For me step number one was to know my competition. I had to find out what was being paid to reps by my competitors. Why? Well I really do want to work with the best of the best. And in order to do that I have to offer a competitive compensation package. If my comp package is too low, how long would a good person stay on knowing they could make more money doing the same job with another company? And if my comp package is too high where is the incentive to sell more and do more?

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Again, for me, step number one was easy. As soon as I saw a competitor's sales person, I asked them about their compensation plan. And I asked my friends from my professional group what they knew. And soon I had an idea of what was being paid to sales rep in the payroll industry. So I could then go on to build a similar system but molding it into something that had value to me and my prospective employee.

If you do not have access to this kind of data, either word on the street or a professional organization that you can safely share information with, you can always use an online tool. One of the ones that I looked at was Salary.com. I typed in my description (sales representative) and my zip code and a chart was displayed showing me all of the ranges of compensation and what pay rate was the most common. This works equally as well to give you an idea of the range that you need to be in. You can also search on Monster.com or any other job bank type of sites to see what the competition pays.

The next step is to determine what your compensation package looks like. Typically sales people have a blend of different types of earnings. For example, their pay may be made up of a base salary, commissions for sales turned in and bonuses for meeting specific goals. The right blend of these types of earnings really helps your bottom line and keeps your sales people eager to sell. What do I mean by this? Well, if you have a sales person who is not selling very much your bottom line is only effected by their base salary. After all, if we use the blend of pay above as an example an ineffective sales rep would not be earning commissions or bonuses if they were not turning in sales. And, if your base salary for your sales reps is adequate but not great, the sales reps have more incentive to sell which means making more money for themselves and their families.

The next part of the process is to make sure that you are reviewing your compensation package. You may find through different experiences that your base is too low or even too high. Or that your market has changed and commissions have increased or decreased. But when you put together a package like this it is never a once and done process. It must be reviewed and even tweaked if necessary to keep your sales reps incentivized.

The final piece of this to consider is what benefits you are offering in addition to your pay package. What extra benefits can you offer your sales reps to keep them loyal to your company and not just bouncing from one company to the next for higher pay? Some of these items are flexible working hours, vacation and sick pay, retirement packages and health benefits. Often good sales people are looking for more than just monetary compensation. And by developing a benefits package you are showing your reps that you are invested in having them as a long term part of your business.

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So I challenge you to think about how you are paying your sales reps. Are you making their life too easy? Making it impossible to make a decent living? Or are you incentivizing them to do their best and be paid well for their efforts?

About the author

Meg Eynon is the Vice President of The Payroll Factory and has over sixteen years of experience working with businesses to help them come up with simple ways to make their employees' lives easier through the process of producing payroll.

Special Offer:

Find out how I make paying your sales people simple. Let me set up all of your extra payroll earnings for sales tracking! Call now for a 25% discount. Offer is good until February 23, 2011.

Call now! 610-644-4569.

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The information contained in this article is to be used to provoke a conversation with your financial professional. Any suggestions by the author need to be reviewed by your accountant or financial advisor to make sure that these strategies are appropriate for your financial situation before being implemented.