INDIAN RIVER
CONSULTING GROUP

Insights

New Age, New Pay

Millennials and Sales Compensation

Indian River Consulting Group offers consulting services to senior distribution and manufacturing executives. We deliver actionable outcomes that drive real results in mature, complex and competitive business-to-business markets.

To talk with Indian River Consulting Group about your needs:
Call 321-956-8617 or email Sandie Stewart at sstewart@ircg.com

By Mike Emerson, Partner

I received an email a few months ago with the following subject line: "Compensation One of the Least Important Factors in Recruiting Millennials." Well, the subject line served its purpose and enticed me to open the email.

The body of the email contained the summary of a survey performed by renowned recruiter Korn Ferry where pay, selected by 18 percent of respondents, was well down the list of reasons those born between 1980 and 2000 chose one job over another.

On the other hand, other surveys I have seen indicated the exact opposite, that the generation that values compensation more than other generations is not the Baby Boomers or Generation X, but Millennials. The main evidence presented in these surveys is that student debt for most Millennials is well above that of previous generations – at about $20,000 per student.

Are Millennials indifferent to pay or is it of the utmost importance? I've come to realize it's both.

So which is it? Are Millennials indifferent to pay or is it of the utmost importance? Well, I've come to realize it's both. Over the past couple of years a trend has emerged in the conversations I've had with clients. More and more of my firm's clients report they are facing challenges recruiting field sales representatives not because of the total pay being offered, but because the fixed portion of the package they are offering is too low.

When these conversations first started, we would agree that a prospective field sales representative who wanted more guaranteed pay and less risk was a bad fit. The traditional view we took was that successful field sales reps needed enough confidence in their abilities to have "some skin in the game."

Wanting a higher salary was a red flag. However, as these conversations started to occur more frequently, and more and more companies struggled to fill open field sales positions, it became time to question this old way of thinking.

Turns out these conversations were symptomatic and that we are at a generational inflection point. Today it appears that those interested in entering the field sales profession in their 20s and early 30s see many things differently; it appears that the traditional methods used to pay field sales reps are not perceived very positively.

Much has been written on Millennials and the fact that by 2020 nearly half of those in the U.S. workforce will be of this generation. A little time on the Internet can provide all sorts of information on how to motivate Millennials, how technology has been part of their lives since birth and how the terrorist attacks of 9/11 have shaped their lives.

This article's focus isn't to rehash all that's been written on how Millennials are different. It is focused on how distributors can adopt sales compensation programs that appeal to the burgeoning group without losing the virtues of historically effective programs.

Twenty-five percent of distributors offer no salary as part of their sales compensation programs, according to the National Association of Wholesaler-Distributors' industry compensation study. This is the wrong answer when it comes to Millennials. Historically, when someone entered the field sales profession, he understood the bargain. The deal was that it would take time to build relationships and that their incomes would start out low, but as time progressed their incomes would grow and potentially grow to amounts well beyond what other jobs provided (including doctors and lawyers in some cases).

The traditional approach is a non-starter with Millennials for multiple reasons. One reason is the debt mentioned previously. Millennials don't have the luxury, or don't believe they have the luxury, of starting out with a salary that may not meet these financial obligations They've got rent, a car payment, student loans and of course a cell phone bill. They want to earn a predictable amount that covers these regular expenses.

Many Millennials also believe that they are likely to be working for a different company five years from now. Although jobs data doesn't support the widely accepted notion that this generation changes jobs more frequently than other generations, according to a recent Wall Street Journal article, "Millennials: Love Them or Let Them Go," the "work your way up" message does not resonate with them.

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The question is how to maintain the tried-and-true motivational compensation upside while also providing the predictable monthly income Millennials desire. A logical solution would be to offer a draw on commissions that provides the desired predictability.

For those not familiar with the term "draw," it is a mechanism where sales reps are provided a set amount per paycheck from which commissions are deducted. I am aware of several companies that have tried this approach, typically with poor results. The issue is that when sales reps see deficits accrue because the draw is not being met, it adds to their debt anxiety, and they go professional Chapter 7, liquidate their debt and find another job.

A slightly better alternative than the draw is moving income from variable to fixed by lowering the commission rate. Instead of paying $2,000 a month in salary plus 15% commission, increase the salary to $4,000 while paying 7.5% commission to provide higher initial pay despite the higher expense (when the lower salary was greater than 50% of total pay). However, the upside opportunity would be reduced, which dilutes the pay-for-performance motivational aspect.

The paradox: how to offer higher fixed pay and provide meaningful and motivational rewards for performance – but making sure sales reps have some skin in the game if they underperform. The best answer is to use a bonus approach where the payout matrix is not linear to performance. With this approach, a salary and a target incentive amount is established based on a company's cost structure and the market value required to successfully recruit a sales rep.

Goals are also established, but the percentage achieved of the goal does not correspond to the percentage of the target incentive earned. In other words, 80 percent of goal attainment does not equate to 80 percent of the target incentive. The performance deficit is magnified two or three times such that missing the goal has a real financial impact.

The magnification also occurs on the upside. In essence, the slope of the line that plots earnings with performance is much steeper, albeit with a higher floor, than traditional distribution sales compensation programs.

If you've experienced more difficulty than usual filling field sales positions you're not alone. Today's aspiring field sales reps are looking for a meaningful amount of fixed pay while also being able to realize a lucrative upside opportunity. With the bonus matrix approach it's possible to attain this threshold, allowing them to have their cake and eat it too.

Author Mike Emerson has worked with hundreds of distributors and manufacturers, specializing in sales compensation design. He has authored four books published by NAW, including What's Your Plan? Smart Salesforce Compensation in Wholesale Distribution*, and* What's the Right Plan? Effective Sales Incentive Design for Wholesaler-Distributors*.*

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The Team

Mike Marks

Mike Marks co-founded IRCG in April 1987 after working in distribution management for more than 20 years. His narrow focus in B2B channel-driven markets has created an extensive number of deep executive relationships within virtually every business vertical in construction, industrial, OEM, agricultural and healthcare. Mike has led project teams that improve market access by aligning resources to growth opportunities serving manufacturers, dealers and distributors. Mike is proud of the team's work and the confidence clients have shown with additional project work.

Mike Emerson

Mike Emerson has been an IRCG Partner for six years. Mike joined Indian River in 1998 and has worked with hundreds of distributors and manufacturers of all sizes and within many lines of trade. His focus areas include: sales compensation design, strategy facilitation, market research and data modeling and analysis.

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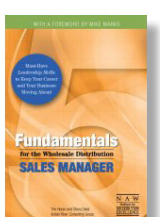

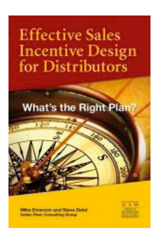

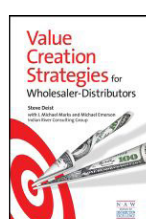

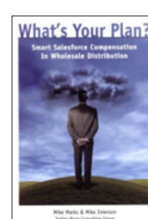

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