How to Change Your Compensation Plan without Losing the Farm

By Dan Jensen, Direct Selling Industry Consultant

There is one certainty in the Direct Selling Industry – every company changes its compensation plan at some point. From what I've seen, however, no phrase seems to strike terror in the hearts of sales leaders as much as "we're going to change our plan"! Indeed, I've seen many an executive suffer for years with a plan they know doesn't work simply because they are terrified to change it. I often wonder how many millions of dollars in lost opportunity they never see. If you anticipate *ever* changing your plan, this article will help you. It may save your company from riotous armies of angry distributors anxious to bash your doors in and hang the guy in charge! It may also allow you to fix your plan and see your business rocket to higher levels of growth and profitability.

Changing or fixing your compensation plan

There are six steps that must be followed to successfully change your compensation plan:

1. **Diagnosis**: what are the root causes of your compensation plan problems?
2. **Solution Design**: what are the changes required to fix the plan?
3. **Transition Period Planning**: help your sales force adapt how they work to the rules of the new plan
4. **Selling the change**: how to convince your sales force, especially your leaders, to accept the change with enthusiasm
5. **Plan Roll-out**: Launch the new plan
6. **Post Roll-out Analysis**: How do you measure the success of the new plan?

Due to limited space, we'll focus on steps 3 and 4 (Transition Planning and Selling the Change) but comment briefly on steps 1 and 2 (Diagnosis and Solution Design).

Step 1 – Diagnosis

Most plan change failures occur because they fail to accurately diagnose the *root* problems with the current compensation plan. Be careful to avoid confusing the symptoms with the root causes. For example, if you see few people moving up the career path to become leaders, you might conclude that the requirements are too high and change the plan to be easier. In reality, the problem could be something completely different. Perhaps the reward for moving from rank-3 to rank-4 of your plan is not enough to motivate people to do what is required to achieve rank-4 resulting in a "virtual wall" blocking their advancement beyond rank-3. Increasing the reward at rank-4 may be a simple and inexpensive fix.

Accurate diagnosis is done by drilling down to the smallest details of the plan. Every piece of the current plan must be carefully analyzed on its own to determine what behaviors it causes or, in some cases, blocks. This is often where the help of a 3rd party expert (neither staff executive nor current sales leader) can often shed light on aspects of the plan that are causing the problems.

Step 2 – Solution Design

Once an accurate diagnosis is found, solutions can be designed that result in a very effective compensation plan change. These solutions must focus on delivering the right behaviors that build success in the sales force. As solutions are proposed, the cost of each one must be carefully analyzed to be sure you don't pay out more than you can afford.

Modeling – A key to success

As part of designing the right solutions, modeling is the act of calculating commissions under the new plan and comparing it to the old plan, person by person, group by group, and for the entire company. Winners and losers are identified by name and grouping or rank. Many a company has lost the farm by becoming inpatient and rolling out a new plan change without really seeing who would individually be affected by it.

Step 3 – Transition Planning

Under your old plan, your sales force built and taught their downlines in a certain way based upon the rules you gave them. With a plan change, you change the rules! Don't expect them to gladly accept a new set of rules that renders their past work obsolete. To keep them excited, you will need to help them adjust how they work and, in some cases, rebuild their downline according to the new plan. This will usually take some time and is called the *transition period.*

The length of time a transition period runs should be determined by those affected by the change. It may be necessary to have a different transition period for different groups of distributors affected by the change. A top leader, for example, may need a year or more to build new downline leaders required under the new plan while others of lesser rank may take only a few months.

Your objectives during a transition period include:

- Minimize negative financial impact upon your active business builders so they don't become discouraged and quit
- Build a positive momentum of enthusiasm and excitement
- Help them learn how to succeed under the rules of the new plan as quickly as possible

There are several approaches you can consider to achieve these objectives:

Option 1: Best of both worlds

In this option, you calculate commissions under the old plan <u>and</u> the new plan each month during the transition period. Each distributor receives the higher commission of the two plans. You may even want to gradually reduce the amount received under the old plan each month to put a fire under them to hasten their adjustment. Your ability to do this may be limited by the software you use, but it is often seen by your sales force as the fairest way to adapt to the new plan.

Option 2: Gradually change requirements

During the first month or two under the new plan, existing distributors may need to work a little differently to qualify at their achievement levels or titles. As each month or two passes, the requirements gradually match more closely the new plan's requirements. New distributors who sign up after the new plan is launched are expected to meet all of the requirements of the new plan without any transition.

Option 3: Grandfather existing distributors and leaders

During the transition period, existing distributors and leaders are allowed to qualify under their original requirements while they adapt to the rules of the new plan. The assumption is that most will have adjusted their downlines by the end of the transition period so their earnings will be at least as much as under the old plan. Unfortunately, people often procrastinate changing how they work until the last minute.

Option 4: Exempt from some new requirements

Until the transition period is over, existing distributors are exempt from a few of the new plan requirements. For example, under the old plan a leader must have $3,000 group volume to be paid as a leader. Under the new plan, they need $3,500 group volume and three or more "legs" with $1,000 group volume in each. In your modeling, you found that many leaders only had one strong leg. During the transition, you exempt your existing leaders for several months from this one requirement.

Option 5: New people on the new plan, old people on the old

This option seldom works well because the "old people" need to be the ones that teach the new people how to succeed in the business. If the old people are not working under the new plan, how can they show the new people how to build their business in the right way?

Step 4 – Selling the Change

Having worked so hard to diagnose the problems, design the solutions, and draft a transition plan, don't become impatient and start announcing the glorious new compensation plan to the world! Instead, you need to formulate a plan on how to win the loyalty and enthusiasm of your leaders for the new compensation plan *before* it's released to the sales force. The best approach is "top-down". Here's an approach I have used very successfully:

- First, meet with the Tier-1 sales leaders off site two or three at a time. When I do this with my consulting clients, we take about 2 hours with each small group. They are flown in to a nice hotel at the company's expense. During the two hour meeting, we teach them about principles of successful compensation plans. We discuss the problems with the current plan and our objectives in fixing it. Then we show them what changes we plan to implement, always showing first the "gives" before we discuss the "take aways". Afterwards, we review the results of our modeling on their individual downlines. If their earnings are going to drop under the new plan, we teach them what to do to surpass their previous earnings – what adjustments are required and why. We also teach them how to teach the new plan to their downline so they have confidence in helping others see the advantages of the new plan. If they don't feel confident teaching it, they won't be enthusiastic when talking about it.
- Meet a week or two later with the Tier-2 sales leaders as a group. Invite the Tier-1 sales leaders who were present in the first set of meetings to attend so they can share their enthusiasm. Go through a similar presentation as you did with the Tier-1 people without reviewing their individual modeling results.
- Do a general announcement of the new plan to the rest of the sales force. You may wish to use a conference call, satellite broadcast, DVD video, or a web broadcast. You need to be visual and share your enthusiasm. Do not rely on a printed brochure or flyer. It will never be enough to create the positive momentum you need.

Conclusion

Plan changes can be like a rocket or a rock. They can move the company to greater heights of success or they can sink it to the depths of failure. Using a proven approach that reduces your risk and maximizes your chance of success will be essential when it's time to make a compensation plan change.

About the Author

Dan Jensen is the founder and of Jenkon, one of the most respected software providers to the Direct Selling Industry. Today, Dan shares his passion and experience with his consulting clients and through his executive training seminars around the globe. Through his 25 years in the direct selling industry, Dan has earned a highly respected reputation as an industry speaker and an expert on sales force compensation strategies. His web site is found at www.danjensen-seminars.com.