Are you wasting your hard-earned commission dollars?

by Daniel O. Jensen

As one looks at the bottom line on a profit and loss statement, one quickly realizes the largest cost factor is for commissions. For many companies, this ranges between 30% to 50% of revenue. While executives search for ways to reduce expenses, "commissions" is seldom touched because it drives the motivation and loyalty of the distributors. Cut the commission check and distributors leave. Increase commissions, and distributors are more motivated (theoretically, at least), but the bottom line suffers dramatically.

The real question an executive should ask is not "*how do we reduce our commission expense?",* but rather *"are we wasting any incentive dollars?"*. If there was an accurate way to measure it, I believe many companies would find they are wasting between 10% to 50% of each commission dollar. In other words, incentive money is being spent without any resulting behavior or effect.

Identifying wasted commission dollars

In our last newsletter, I described five foundational objectives or behaviors a compensation plan should include. These are:

1. Sell product to end consumers (retailing)
2. Build organizations (recruiting)
3. Build Managers (people who train others to sell and recruit)
4. Build Sales Leaders (people who train others to manage)
5. Retention (keep them active)

Step 1 - Is it accomplishing the five basic objectives in a balanced manner?

As you look at your compensation plan, determine how well it accomplishes these fundamental objectives. Figure out where it's weak and where it's strong. For example, suppose you look at your plan and realize that there are few incentives to retail product. Symptoms might include garages full of inventory or distributors who have to sell product to other distributors because they bought too much. Perhaps distributors focus on recruiting but fail to train them how to sell the product. As you look at the plan, you realize that the retail profit is poor (maybe only 20%) and that the presentation of the plan doesn't emphasize retail profits as part of the overall compensation system.

Try making a chart like the one below to see how each commission type contributes to the desired behaviors (your types of commissions may be very different than in my example):

Behaviors	Retail Profit	GV Bonus	Break-away	Infinity	Recruit Bonus	Total
Retailing	3	2	0	0	0	5
Recruiting	0	4	2	0	3	9
Build Managers	0	2	4	1	0	7
Build Leaders	0	0	4	5	0	9
Retention	0	1	3	4	0	8

In the above example, suppose your compensation plan had the five types of commissions. Now, assign a point value from 1 to 5 based on how well each type of commission (top row) produces the five behaviors (first column). I've filled in some sample numbers to give you an example. Total them up and see how balanced your plan is, where your weaknesses are and where your strengths are. Is it accomplishing the five basic objectives?

Step 2 - Is each type of commission obtaining a desired behavior?

Look at each component or type of compensation by itself and ask *"what behavior does this type of commission create?"* or *"if this type of commission was removed, what behavior would stop occurring".* For example, if you took away the retail profit, what would happen? (Correct answer: sales would stop) If you eliminated your breakaway overrides, would leaders continue building other leaders and managers? Too many times, plans are designed to redistribute the sales dollar to others without any specific expectation. The result isn't as much a compensation plan as it is a form of "welfare" (no political message intended). Successful plans focus on behavior. Reward distributors for good behavior. Avoid rewarding them for undesirable behavior.

Step 3 - Are there any duplicated or overlapping behaviors being paid for?

Compensation plans usually have at least four types of commission incentives. If two or more types of commissions are being paid for the same behavior, would it make sense to combine them or eliminate one? Sometimes it does.

Step 4 - Are there disincentives in your plan?

As you look at each type of commission and how it interacts with the other types, you might find some conflicts or opposing forces at play. Eliminate them quickly.

Step 5 - Are you rewarding the non-producers?

If a distributor fails to produce, what happens? Do they continue receiving compensation at the level of their performance? If not, you're rewarding nonperformance at the expense of the performers. *What one man receives without working, another man works for without receiving.*

Conclusion

Every plan has weaknesses that are opportunities to add to your bottom line. While you may not need to reduce your commission expense, I promise that you would increase sales and profits by redirecting some of the wasted commission dollars to strengthen the weaker areas of your plan. And who knows, spending a few hours on this may give you enough money to buy that shiny new Jenkon computer you always wanted…