

**Ask SCORE...**

Counselors to Naples Area Small Businesses

**SCORE Naples**  
[www.scorenaples.org](http://www.scorenaples.org)



*Got business questions?*

## ***Ask SCORE***

*By: Gray Poehler, Business Counselor*

### **Compensation – Salary vs. Bonus & Commission**

***QUESTION:*** *I am a principal in a local insurance agency. We employ both customer service representatives (CSR) and sales staff. Both are paid competitive salaries and our sales staff can also earn commissions from their production efforts. In spite of the commission incentives we are not meeting production goals. Any suggestions?*

*Donald G., Estero*

***ANSWER:*** *Donald, an insurance agency is a sales and service type of business. Typically the sales people solicit and bring in the business, while the customer service representatives are charged with day to day service after the sale. It is extremely important for management, by job description, to make clear who is responsible for what. If, for example, your salesman is in the office fielding routine telephone calls and email requests for service, he is probably not going to meet his production goals.*

*This is an easy and comfortable trap that management creates when they are too generous with base salary guarantees. Granted some large and valuable customers may insist on dealing only with the person that sold them the policy. However, over time, they can become accustomed to dealing with a designated CSR, when the salesman is unavailable or out of the office. In truth, the customer service representative can probably handle 99% of the client's needs and do so without delay. Once the sale is made, why not take the CSR to visit the client and introduce him or her as their personal in-house service assistant.*

*If you wish to grow, meet and/or exceed sales goals, management must create incentives that motivate the sales force. Consider translating the guaranteed base sales salary into a percentage of gross sales, and then add an additional percentage so that the total commission looks quite attractive. Example – Offer 40% commission on new business written, in lieu of a \$30,000 salary guarantee and 10% commission on sales of \$100,000. In order to lessen the shock of change in the method of compensation, the*

*earned commissions could be applied against a \$2500 monthly draw for a period of one year. A lesser commission of 20% to 25% could be offered for renewals of existing business. If the salesman fails to produce enough commission income to more than cover his draw, he is no salesman and should be replaced.*

*Any incentive compensation program should establish and measure, as fairly as possible, relevant attainable goals. It should also insulate the participant from fluctuations in compensation that is attributable to external, uncontrollable market forces. The monthly drawing account helps smooth out peaks and valleys and enables the salesman to focus on his individual monthly or quarterly sales goals.*

*The clarity of the sales task is of the utmost importance. If the sales task is unclear, the ability of an incentive to motivate is significantly diminished. Weekly sales meetings that review the number of calls made and the resulting sales gives the salesman a clear understanding of the relationship between effort and reward.*

*Management must also create and reinforce a culture that rewards success. Effort is meaningless if it doesn't ultimately result in success. To the extent that the business grows more profitable, the profits should be shared in some measure with those other employees who have contributed to the success. The CSR's and other support staff are a critical part of the team. But for their efforts the rate of client attrition would undoubtedly be greater than normal. A bonus incentive plan based on increased percentage retention of old business is an excellent way to reward the service personnel. Bottom line, both bonus and commission are self-funding methods of compensation.*

*Business counseling is available from the Naples Chapter of SCORE. Counseling is always FREE of charge. Just call 239-430-0081 or visit [www.scorenaples.org](http://www.scorenaples.org) and click on "Request counseling now as a first time client." The SCORE business office is located at 900 Goodlette Road North, in the Fifth Third branch bank building. Office hours are 9:00 am to Noon, Monday through Friday.*

*If you would like an answer to your question, please fill out the form located at [www.scorenaples.org/askscore](http://www.scorenaples.org/askscore). A counselor will contact you within 48 hours. Please include your name, email address and a contact phone number.*