



Motivating sales for higher margins

Transparent, common-sense management works best



By Rick Hill

In the 21 years I have spent in sales, I have been through every kind of incentive, motivational and sales program there is — and I have found one program that actually works every time. This incentive system is the prime motivator for every salesperson I have encountered and increases margins consistently. It is a common-sense, easy approach that gets the whole team selling intelligently and with consistently higher profits.

THE PROGRAM

To sum up the program in a sentence, companies have to treat their sales team like responsible adults by using common sense and the truth.

I believe that if you want people to work hard consistently, they need to have full trust in the company. To earn this respect, a company has to consistently treat its employees with the same level of trust that it expects from them.

My company, OnPoint Sales, has worked under this program since we started in 1998. As an experienced sales manager, I was trying to rectify the myriad of failed sales incentive programs foisted on my teams over the years. Later, I read two books, *Maverick* and *The Seven Day Weekend* by Ricardo Semler, that clarified my thinking on this business principle.

Semler runs Semco, an international company of 500 employees, and is the second generation in his family business of making industrial pumps. Tom Peters, *The Harvard Business Review* and *Business Ethics* have recognized Semler's company. His entire company from the factory floor to the CEO work on the premise that everyone should be treated as responsible adults, with common sense and the truth.

THE TRUTH

What does that mean for sales and margin? It might be easier to relate experiences where the opposite methods are used first. Here are three quotes I have heard over the years.

"I pay my sales guys a fair salary, and they should be happy with that."

This laminate distributor worked under the "don't ask, don't tell" system. The margin, profit and cost of goods were a well guarded secret. The sales team never knew how well or poorly their company performed. It also was never told if its sales were even profitable. The company attitude of "just go sell" created an apathetic attitude. The company may actually be paying them fairly, but

how would they know? All they see is the owner's corner office, car and expense account. When no one in the company knows the truth, they will make up their own lies to justify and rationalize their behavior.

When I traveled the market with these salespeople, they didn't know their customer base and had spent most of the days shopping, going to movies or sleeping in. On our team they were known as the "free-lunchers" because that was the only way you could get them to show up for a day in the field.

"She sold so much her check will be bigger than her boss!"

A larger conglomerate controlled this hardware distributor. They had established a budget for how much a salesperson is worth, so every time she beat her quotas they just narrowed her territory or the target. The company thought holding one great salesperson within reasonable salary limits kept the sales team cohesive and manageable. The sales team quickly realized that hard work was rewarded with harder work. They protected themselves by underestimating sales goals and delaying orders to even out the volume. Once the top salesperson caught on to the quota raising game, she left. By following the corporate mandates of hierarchy and pretend pay scales, they lost a great salesperson.

If this hardware distributor was working on a true cost with profit formula, the more the sales person sells the more the company makes. If some salesperson actually increased margins so much that they made more than the boss, wouldn't that be good for the company and the boss?

"We are losing money because our sales people are selling too much."

This is a very common problem that could use more common sense. This cabinet manufacturer paid its sales team on volume of sales not on profit. The sales volume number is a very tempting number to use when gauging sales performance. It is easy to see progress and easy to set up compensation plans. It is also the worst way to reward salespeople.

As a woodworker you want more profit, but you may not want more sales. Sales at too low a margin are a constant drag on your manufacturing, vendors and support staff. Consistent low pricing also attracts the wrong kind of customer. Customers who are loyal to price will leave you the minute your price changes. My experience has also taught me that this price-focused customer is the same customer who pays his bills slowly and constantly returns products.

As in our earlier stated quotes, when salespeo-

ple are not told the truth about profitability and actual cost, they tend to sell on the lowest price possible. Why? It is the easier path. When selling on volume, no justification of quality, service and value is needed. Compensation is determined on volume not company profit. If the sales team has the lowest price in the market, it will sell more volume. If it doesn't have the lowest price, then it is the management's fault, not sales. Management is always complaining about something they call margin, but these salespeople were paid to sell, not figure margin.

FEAR OF THE FEW

Ricardo Semler talks about how old-style company policies are meant to control those people who take advantage of the system, but as he has found in 20 years of running Semco, those same people abuse any system. The policies are written to try to control the few and to give the company a reason to fire the abuser. If a dishonest person wants to cheat, there isn't a sales program, incentive or system that can stop them. So why punish the honest folk with inhibiting time-consuming rules for the one fool you would have fired anyway? We aren't in grade school anymore, so let's not make everyone stay after so we can punish the one dishonest person.

Fear also forces a pricing policy based on protecting the company's bottom line instead of increasing it.

For example, let's say we are selling a cabinet that cost us \$100 per unit. That \$100 includes our actual minimum profit and product cost.

If we tell the sales team our lowest possible sale cost is \$100, the fear-based policy would assume that every salesperson would sell that unit at \$100. If we paid the sales team on volume instead of profit, they would live up to this low expectation.

But what if you paid them an extra percentage for every cabinet they sold over the cost? What if they shared in the extra margin if they sold at a higher percentage? Do you think they would be trying to get every penny of quality, service and value they could? At times, for large volume the sales team may have to go to our lowest cost of \$100. If we treat them like responsible adults and expect them to use common sense, we could give them the leeway to use this number if they had to.

Salespeople who consistently sold at the lowest cost possible would be self-evident by their lower profit margin. Management then has a reason to improve their skills through training, let them go or maybe move them into a position where focusing on a lower price can be rewarded.

A few years ago, I was training a new salesman for a lumber wholesaler. The company was pro-

- MAXIMIZING MARGINS -

moting a true cost system. They let the sales team set the price after giving them the actual cost and overhead of the company. The sales team worked for several weeks with this new incentive and hit the streets hard. They enthusiastically promoted value, quality and service.

When I traveled again with the team, they were disappointed and angry. We took long lunches and saw half of the accounts we had first tackled. It seems that when they hit the streets the first time, the company had misled them in the actual costs and overhead. To “protect” themselves from the possible abuse of the system, they had tacked on an extra 40 percent above the stated total cost. The salespeople on the street soon hit the brick wall of being overpriced and lied to. The outside sales force went from motivated, aggressive sellers talking up their company pride, to angry, abused slackers.

If higher margins and increased sales are really your goal, then I argue that the true numbers need to be shared. Whether you agree with Semler and OnPoint Sales about our open approach is up to

you. Not everyone is ready to grasp this philosophy change. If you are ready to dip a toe into this attitude, here are a few rules you can use for any common-sense approach to sales incentives.

COMMON-SENSE RULES FOR SALES PROMOTIONS

Rule #1. Any sales incentive program needs to benefit the whole company.

I realize this is a very broad and possibly scary rule. Let's go back to Semco and its common sense approach. Common sense says that everybody in a company sells; not just the sales and maybe the sales support people. Everybody from the warehouse guys to the purchasing agent to the people on the sanding line, everyone has an influence on the sale. If the salesperson sells a truckload of cabinets to a new account and the person on the sanding line sees no incentive to work the extra hours to finish the job, how will the salesperson get the second order?

To include everyone in a sales incentive is essential to success. Take the time to set up a

program that shows everybody in the company how they profit from these new orders. The goal is to get the whole company thinking about supporting the sales team by doing their part to make it happen.

Here are a few ideas to get everyone interested in new sales: If you have profit sharing, outline how much it will contribute to their share. If you run an extra commission on the new order, allow enough to throw in a free lunch if they hit the goal. There are dozens of ways to get the whole plant to support the new sales — extra days off, manager dunk tanks, reggae parties in the parking lot, whatever it takes to interest the whole crew. Common sense says that if the whole company benefits from the new sales, the peer pressure alone will get the salespeople moving.

Rule #2. Keep it simple.

The program must be easy to understand for everyone. For example, you bought too much maple lumber last month and now you have to move it. So an incentive might be to increase the sales of your carved maple mouldings in your

- MAXIMIZING MARGINS -

cabinets, your interior maple cabinet Lazy Susans and your maple doors. That would help you use up the excess faster, right? Wrong. It is not simple enough. Pick one item at a time. Make life simple for your sales staff to understand and sell. If you decide that solid maple doors will use that excess faster, promote the doors and train them how to switch customers from oak and cherry doors to

stained maple.

Rule #3. Keep it short.

The program can only run for a couple months at most. Shorter is better. People do not pay attention to long sales programs. One large national woodworking supply distributor has recently abolished all its sales flyers that gave the customer two to three months of promotional pricing. The

customers were ignoring the flyers and the promotional price was becoming the standard price. Now it give the customer two to three weeks to act or miss out on the "special."

Rule #4. It really has to be a "special."

Nothing will take the wind out of your promotion faster than a competitor with a standard program, price or service that beats your "special."

We are back to using common sense. If you are going to run a promotion, make sure it is a true value to the customer, not just to your company.

Rule #5. Pay now, and pay often.

Your team is doing its best to promote and push this new incentive. Everyday they do a mental tally of how close they are to the prize. Set up stages of achievement so they can track their success. Give out immediate rewards at those stages to reinforce the goal.

When they reach the final goal, they want it. To you it may seem like they are being greedy or pushy. Remember that they have been focused on this for the entire promotion, not just at the end. Don't wait for accounting to send the check or the next month to bring in the reggae band. Do it now, on the day they win. The winner of the Super Bowl immediately holds the trophy aloft for the millions of fans to see and cheer. Not a month later, in the mail.

This open pricing concept is not new. Many companies like mine have taken it further than just pricing. Whether your company is willing to be wide open is for you to decide.

The hardest part of open pricing is the personal evaluation that management must submit themselves to first. The company does not have to open the books to give open pricing, but management does have to justify a fair overhead and profit margin. If management cannot justify the profit margin and overhead to reasonable, responsible adults in a common-sense discussion, then the problem in the company is not the sales people. ■

Ed. note: Rick Hill is the founder of WoodReps.com, a national association of independent sales representatives in the woodworking industry. Hill also runs OnPoint Sales, an independent rep group in the Midwest. He can be contacted at onpoint@excel.net.