A Good Compensation Plan Motivates Agents

It may seem like an oversimplification to say that the more you pay an agent, the more attention your line will get. Within certain limits, this is true. But good agents do look at more than your commission rates. They look at what you're going to do to back them up. They want to know that you're going to promote their products and send them qualified leads. They want to know about your factory field support, your internal agent support, and your plans for growth and for meeting existing and emerging competition. Many an agent has turned down a line with a sky-high commission simply because he knew that he wasn't going to get the backing he needed to make the line go in the territory.

Sales contests seldom motivate a good manufacturers' agent. He or she would rather see you put the money you would spend on a contest in strengthening the support you provide to the field.

Practical Compensation Guidelines

In general, if you follow these guidelines, you will be on the right track in developing a fair compensation program.

- Decide specifically what the agent is expected to do in order to receive his basic commission compensation.
- Determine what services, in addition to those needed to determine the basic commission rate, will be needed.
- Determine whether the additional services will be paid for as increased commissions or as special fees.
- Set goals - not quotas. Quotas are appropriate for salaried salespeople, but not for independent manufacturers' agents. The goals you set can be tied to other compensation. For example, opening a long sought-after account might be rewarded by a pre-negotiated bonus.
- Make sure the agents understand your priorities. If you want immediate sales, and need your market information on a random basis, for example, make sure your agents understand where you stand.
- Decide how you are going to evaluate agency performance, and make sure that your agencies know how you will be evaluating them.
- If appropriate, develop an incentive system which rewards your agents for their achievement beyond the goals you have set. Most often these rewards take the form of increased commission rates for sales beyond specified levels.
- Keep your agents informed regularly of their performance, relative to the goals you and they have agreed on.
- Be prepared to change your programs as market conditions change, and make sure you play by the rules you and your agents have agreed upon.

Planning is the Critical Variable

Too often, agency compensation programs are a hit-or-miss affair, tied only to some mythical average commission rate. Don't fall into this trap. Remember, your agents are all independent contractors, and each faces a different set of circumstances in his or her territory. This means that you can create your programs to suit specific circumstances.

Your goal is to make money. It's the same goal your agents have. You want to make sure that they can profit from their association with you. And the only way to do that is to plan with them. Get their input. Know the conditions each faces in the different territories. Know what your competitors are doing in terms of agency compensation. And, if you're starting from scratch and are looking for agencies, make sure that your total compensation program - commissions and fees - captures their attention.

Agency compensation is a major part of the ties that bind manufacturers and agents together for the long pull. Offer too little and you won't attract the kinds of agents you want. Offer too much and you may find yourself in some financial difficulty. In other words, the operative word for all concerned is "fair." Be fair to yourself and everyone else involved. That's the sum and substance of a good agency compensation program.