

The Elements of a Carefully Planned Compensation Plan

Note that we continue to use the word *compensation*, not the word *commission*. Commissions are part of compensation for most agencies. As we said, today agencies are doing a lot more than just "selling" their principals' products; they are providing very sophisticated field marketing assistance as well.

As a manufacturer, you are concerned with a lot of things. But the elements that are most important when considering a compensation program are these:

- **Current and future sales.** Any compensation program should be designed to assure positive cash flow and fair profits today as well as the development of sales in the future. For example, you may be paying a commission on products sold today, and special fees to the agent for pioneering your new products. Again, flexibility is critical when developing a compensation program.
- **Expanded market share.** Everyone knows that it's possible to "own" a market and lose money. Market share is a concept that must have sound economic underpinnings. How you compensate your agents and what they are expected to do to gain a greater share of the market for you is a key issue when developing a compensation program.
- **Product recognition.** In the past, it was solely the manufacturer's job to advertise and promote his or her products. Today, agents are closely intertwined in this promotional effort. In many fields, agents are expected to run local trade shows and seminars. They are often expected to train distributor salespeople. These are all activities that take an agent's time but don't translate immediately into commissionable sales. You may expect your factory salaried people to do all of these things, but you can't expect an agent to spend a lot of time he or she would ordinarily spend selling in doing these things without offering some compensation.

- **Special agency services.** As we have been pointing out throughout this report, sales agencies are doing a lot more than just getting orders for their principals. Here are a few of the services agencies perform today and which should be considered when planning a compensation strategy:

Warehousing. In some cases, commission rates are adjusted to compensate the agent for warehousing services. In others, specific fee schedules are established, in addition to commissions for products sold.

Engineering. When technical products are involved, some agents now provide an engineering and specification service. Some have been compensated for their service by increased commission rates, while others have charged for their services on an hourly consulting basis.

Market research. A good agent will provide you, without cost, the marketing intelligence he or she picks up during the course of normal day-to-day activities. But, if you expect special research activity, it is generally paid for by a negotiated fee above commissions.

Order processing. In most cases, orders for products sold by agents are placed directly with the manufacturer. However, now that agencies are expanding and using sophisticated computers for day-to-day operations, some are actually accepting customer orders and then placing them with their principals. And, this service often includes follow-up as well. This service is often paid for by an additional fee, although many agents who perform the service will negotiate a larger commission rate in lieu of the fee.

Special promotions. Today, agents are doing everything from running their own trade shows to making very sophisticated direct mailings. When your interests exceed what the agent already does, it's appropriate to discuss additional compensation.

Other areas. MANA member agents have reported that they have been compensated by their principals for these and other special services: collecting past due accounts, sales forecasting assistance, special customer service work, training, distributor inventory control, and other projects. It should be noted that in all of these cases, both fees and modified commission structures have been reported.