MARKETING COMPENSATION PLANS

INPUT

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The company carries out continuous and in-depth research. Working closely with clients on important issues, INPUT's staff analyze and interpret the research data, then develop recommendations and innovative ideas to meet clients' needs. Clients receive reports, presentations, access to data on which analyses are based, and continuous consulting.

Professional staff have, on average, nearly 20 years experience in the information processing industry. Most have held senior management positions in operations, marketing, or planning. This expertise enables INPUT to supply practical solutions to complex business problems.

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IMPACT OF MARKETING COMPENSATION PLANS IN THE COMPUTER SERVICES INDUSTRY

IMPACT REPORT

NO. 7

DECEMBER 1977

IMPACT OF MARKETING COMPENSATION PLANS IN THE COMPUTER SERVICES INDUSTRY

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IMPACT OF MARKETING COMPENSATION PLANS

IN THE COMPUTER SERVICES INDUSTRY

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I INTRODUCTION

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- This report is produced by INPUT as part of the Market Analysis Service (MAS).

- The topic was selected because of high client interest and because of the importance of effective marketing to the continued growth of the computer services industry.

- Research for this report included a series of in-person and telephone interviews carried out in September through November 1977 at top management, middle management, and salesman levels. An interview profile, definition of terms, and copies of the interview forms are included in Appendix A.

- Because of the confidential nature of the information gathered from responding companies, a commitment was made by INPUT not to identify respondents.

- The basic data on which Chapter III, "Structure of the Computer Services Industry," is based come from about 750 personal and telephone interviews carried out during the past year with computer and computer services users and company executives.

- The report is primarily an analysis of the interviews and other data based on the experience and expertise of INPUT staff.

- Inquiries and comments from clients on the information presented are requested.

II EXECUTIVE SUMMARY

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A. THE IMPORTANCE OF MARKETING COMPENSATION PLANS

- Without exception managers of computer services companies, particularly those marketing remote computer services (RCS), consider the incentive portion of their marketing compensation plan to be of prime importance. It is looked upon as a major tool in motivating to achieve growth, and as a factor in successful recruiting. It is also recognized as a contributor to the negative factors of high salesmen turnover and increasing marketing costs.

- In carrying out this study, viewpoints were sought at three marketing levels - top management, middle management, and salesman. It was recognized at the outset that marketing compensation plans are inevitably a major communications path down and up an organization. Therefore, the qualitative aspects such as attitudes and career goals are treated, as well as the quantitative aspects such as costs and incentive rates.

- Marketing compensation is a major cost element, averaging 10% of company revenues. Forty percent of marketing compensation, or 4% of company revenues, is in the form of incentive compensation. These percentages in turn make up a major portion of total marketing costs which range between 18% and 45% for the 11 companies participating in the study. Individual responses are presented in Exhibit II-1.

EXHIBIT II-1

SUMMARY OF KEY SURVEY RESULTS RELATING TO STAFFING, COSTS, INCENTIVES AND TURNOVER

	RESPONDENT										
	1	2	3	4	5	6	7	8	9	10	11
No. of salesmen	83	22	83	100	20	48	30	44	80	150	37
No. of tech. support personnel	80	25	90	124	20	70	30	22	100	200	52
Avg. salesmen incentive % of income	40%	50%	50%	45%	30%	20%	50%	40%	60%	60%	40%
Avg. support personnel incentive % of income	–	10-15%	0	15%	5-6%	10%	0	20%	10%	0	0
Income range for salesmen (thousands of $)	$16-40	18-80	18-65	17-88	18-70	16-42	25-100	15-40	18-60	24-65	16-45
Income range for support personnel (thousands of $)	$12-30	24-45	15-28	15-28	15-25	12-37	15-25	17-30	16-30	14-30	14-32
Income range for sales managers (thousands of $)	$25-35	25-80	28-60	27-85	30-50	27-47	35-45	25-40	24-40	30-55	26-70
Total marketing cost as a % of revenues	28.4%	30%	30%	26%	35%	40%	40%	45%	45%	18%	32%
Average incentive compensation as a % of revenues	3%	8%	3.4%	3.7%	5.5%	4.8%	3.5%	6%	3%	4%	5%
Turnover rate for salesmen	25%	30%	25%	35%	40%	45%	15%	40%	25%	35%	50%
Duration of Sales Training Program	6 mos.	<1 mo.	3 mos.	3 mos.	3 mos.	<2 mos.	<1 mo.	5 mos.	6 wks.	<1 mo.	4 mos.

- Marketing compensation plans are increasingly recognized as a management tool to target specific corporate objectives such as product emphasis, national account development, and career enhancement. The continued growth of computer services revenues indicates that even though there are shortcomings, the plans are a contributing factor in the continued success of the industry.

B. KEY FINDINGS RELATING TO STAFFING AND TURNOVER

- The ratio of salesmen per sales manager or salesmen per support person bore no relationship to average revenues produced per salesman. Two other relationships were constant:

    - Larger companies had higher average revenues per salesman; the study average was $450,000 per year, and larger companies typically were between this figure and the high of $650,000 per salesman per year. This reflected in part the higher established revenue base of the large company.

    - Companies paying higher average incentive compensation as a percent of salesman's total compensation had higher average revenues generated per salesman, reflecting the effectiveness of high incentive compensation.

- Salesman turnover is high in all companies, with 10 of 11 respondents reporting 25-50% annual rates. The three companies reporting average revenues per salesman of $650,000 per year had turnover rates in the 25-35% range. The three companies reporting average revenues per salesman below $300,000 per year reported turnover rates between 40-45%, indicating that high turnover and low revenue production are related.

C. SALARY RANGES FOR MANAGERS, SALESMEN, AND SUPPORT PERSONNEL

- Wide differences exist in salary ranges, and in the salary relationship between managers, salesmen, and support personnel. This is shown graphically in Exhibit II-2. Although the lower levels in each range are comparable, the upper levels in each range vary by over 100%. This wide variation reflects the variety of incentive structures described in the body of the report and wide differences in management incentive philosophy.

- Differences in upper levels of income derive from premiums paid for new business and for performance above quota. There is little attempt made to pay for profitability, or meeting non-revenue objectives such as product emphasis or reduction of turnover.

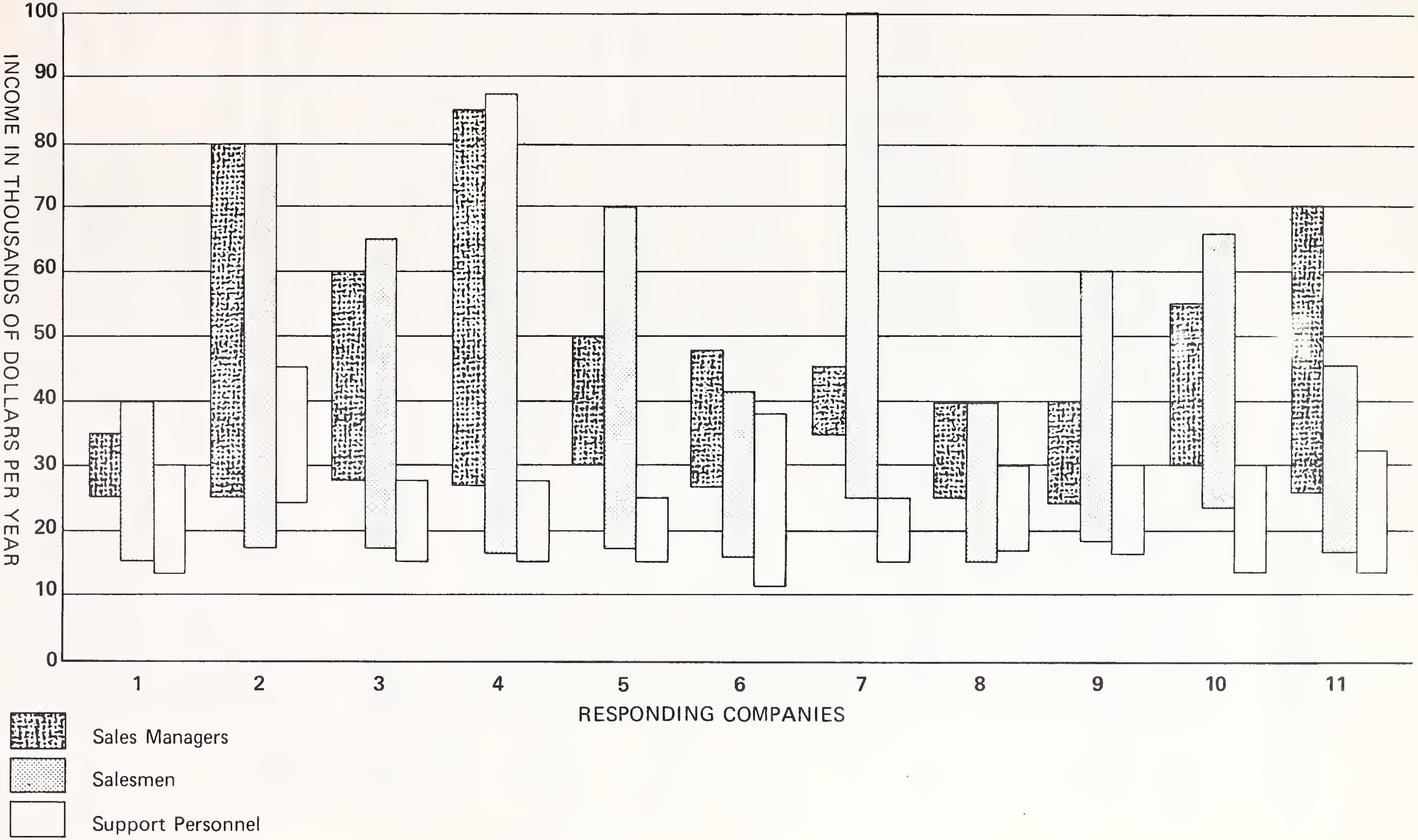
D. THE COMPETITIVE ENVIRONMENT

- This study deals with the total computer services marketplace which currently exceeds $6 billion per year in the U.S. , is growing at 16% per year, and includes over 5,000 firms. Emphasis is on larger firms with formal sales forces.

- Those companies compete for revenues and people. Companies reported that 80% of their new revenues came from sources other than competitors' customers. They also reported that most new salesmen came from other services companies. The competition for sales people appears to be more intense between companies in the industry than the competition for business.

EXHIBIT II-2

COMPARISON OF ANNUAL INCOME RANGE
FOR SALES MANAGERS, SALESMEN, AND SUPPORT PERSONNEL



E. PROBLEM AREAS IDENTIFIED

- Salesmen turnover is a major problem. A company with revenues of $15 million per year will have approximately 40 salesmen. With a 40% turnover, and a cost (estimated by a Vice President, Marketing of a major firm) of $106,000 per lost salesman, the annual cost to this company is $1.6 million or over 10% of revenues! This is equivalent to half of the before tax profits of a typical company.

- The RCS market is growing at over 20% per year and is changing in structure as more specialized products are introduced. These factors increased the requirement to train personnel. This training requirement is not being met by the industry.

- Salesmen and management are often in conflict over quotas, leading to a feeling that "it's impossible to put together two good years in a row."

- Marketing costs continue to rise and yet have no demonstrable relationship to revenue growth, indicating inefficiencies in many marketing plans.

- In the minds of many sales and management personnel, the industry lacks stability and a clear future.

F. IMPLICATIONS FOR MANAGEMENT

- The commitment to high growth in RCS and other services, and the proven effectiveness of quota-incentive plans in achieving the growth mean such plans will continue to be a basic part of the industry.

- The growth and increasing complexity of the market create a demand for more and better sales personnel who can function as problem solvers and consultants. These skills take years to learn, yet the average employment of a salesman by an RCS firm is less than 3 years. This is not time enough to develop the required skills.

- Although personnel are well paid (average salesman compensation was in the $28-35,000 range), they generally have little company loyalty. Management must identify a better balance between monetary and non-monetary compensation. For example, recognitions of achievement using such devices as "100% Clubs" were considered to be universally successful.

G. REMOTE COMPUTING SERVICES VS. BATCH SERVICES, SOFTWARE PRODUCTS, AND PROFESSIONAL SERVICES

- Companies selling a mix of RCS, Batch Services, and Software Products used similar incentives:

  - In general, RCS sales had the highest commissions and the most volatile sales force.

  - Batch services were often more price sensitive and commission rates were lowered if a large user was granted special reduced pricing.

  - With software products, the support personnel need a higher technical competence since they may be involved on-site with a client on a continuing basis.

  - Sales of professional services are often compensated for outside of the regular incentive plan, usually at a commission rate of approximately 8%.

H. RECOMMENDATIONS

- Services companies must take a longer term view of sales personnel policies if they are to build the professional force needed to support future growth. This means:

  - Better salesman selection using professional recruiting techniques rather than relying on the branch manager.

  - Heavier investment in training, both sales and technical.

  - More attention to building company loyalty.

  - More attention to balancing the strong individual performer with a team capability within the branch.

- Quotas must be built from sound market information, not from an extension of company or industry growth targets. The latter creates confrontations between management and salesmen when excessive quotas are not met.

- Non-monetary incentives such as "100% Clubs" should be expanded to include a higher percentage of the sales force. Many companies target 30-50% participation, meaning that over half of the sales force does not benefit from a "winner" image.

- As products become more specialized, management must provide the additional training, field support literature, and promotional support to push these products to market.

- Although continuing to tie income to performance, companies should add special monetary and non-monetary incentives to promote the increasingly important aspects of:

- Industry specialized marketing.

- National account marketing.

- Product marketing.

- Management must take a longer term view of the market to anticipate changes in compensation structure, personnel requirements, and the competitive environment. This includes:

  - Looking at market segments as well as individual clients to develop specialty products.

  - Confront the increasing importance of low cost hardware in services offerings and the potential longer lead time in selling such offerings.

- Companies must do a better job of promoting the concept that they offer a career opportunity rather than a short-term high income opportunity. This means that companies must make a heavy investment in personnel growth and clear identification of career paths.

III STRUCTURE OF THE COMPUTER SERVICES INDUSTRY

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A. THE TOTAL INDUSTRY

- The computer services industry is comprised of over 5,000 firms in the U.S. These firms currently generate over \$6.0 billion in revenue per year, or an average of \$1,100,000 per firm. The sales forces of these firms range in size from 0 to approximately 200 salesmen. Products range from simple batch applications to very complex remote computing applications. Companies focus on narrow local markets or broad international markets. This study applies across the total range.

- The largest independent companies in the industry have computer services revenues in the \$200 million range. As the industry grows at a forecasted annual rate of 16%, these companies will reach \$500 million by the end of the decade. Another group of companies with current revenues in the \$10-100 million annual range anticipate similar growth and will more than double in size by 1982.

- Of the 11 companies interviewed for this study, 10 have current revenues over \$10 million. One company has current revenues of \$4 million. All shared similar issues relative to marketing compensation plans - growth, costs, turnover, and profits.

- Although the total computer services market continues to grow, factors which can change the structure of the market include:

- IBM and/or AT&T entry into the computer services market.

- Increased regulation requiring more reporting and control by financial, industrial, and other organizations.

- Lower hardware costs making in-house solutions more economical in some instances and providing computer services companies with an opportunity to include hardware in their offerings in others.

- Increasing communications options; e.g., Value Added Networks (VANs) and satellites. These are new factors in applications design.

- Pricing changes resulting from these and other forces.

• Marketing compensation plans must adapt to these changes.

B. EMPHASIS ON REMOTE COMPUTING SERVICES

• Companies with large concentrations of Remote Computing Services (RCS) revenues are generally the largest computer services companies with the largest marketing organizations. They tend to be "leading edge" in terms of marketing plans and were therefore selected as the main source of information in this study. This emphasis also allows a more valid comparison of compensation plans, statistics, and attitudes than would be the case if batch services, software products, and services were mixed in the results. Where appropriate, services other than RCS are treated, to allow vendors of these services to apply the results of this study.

• The estimated 1976 RCS revenue ranges of the top 20 U.S. companies are shown in Exhibit III-1. Ten of these companies participated in the interviews which are the basis for this report. To protect the confidential nature of the information, the participating companies are not identified. (Since only RCS revenues are shown in Exhibit III-1, many of the companies, of course, have higher total revenues than the levels shown.)

EXHIBIT III-1

ESTIMATED 1976 RCS REVENUE RANGES OF THE TOP 20 U.S. RCS COMPANIES

OVER $100 MILLION/YEAR
CONTROL DATA CORPORATION GENERAL ELECTRIC INFORMATION SERVICES
$50-100 MILLION/YEAR
AUTOMATIC DATA PROCESSING COMPUTER SCIENCES CORPORATION MCAUTO TYMSHARE
$25-50 MILLION/YEAR
BOEING COMPUTER SERVICES NATIONAL CSS UNIVERSITY COMPUTING COMPANY UNITED COMPUTING SYSTEMS XEROX COMPUTER SERVICES
LESS THAN $25 MILLION/YEAR
COMPUSERVE COMSHARE DATA RESOURCES, INC. ITEL INTERACTIVE DATA CORPORATION KEYDATA ON-LINE SYSTEMS OPTIMUM SYSTEMS RAPIDATA

- Characteristics of RCS which make it particularly interesting from a marketing viewpoint:

  - It is the fastest growing segment, as shown in Exhibit III-2.

  - It is being impacted by an increasing degree of specialization. Almost 60% of the processing services market growth is in industry specialized services (per INPUT's "Computer Services Industry Annual Report, 1977").

  - It is increasingly being used by non-technical (i.e., non-EDP trained) personnel meaning a broadening market. Examples of industry specialized, non-technical user applications are:

    . Travel agency services.
    . Driver and vehicle scheduling for motor freight companies.
    . Patient recordkeeping and billing for hospitals.
    . Credit handling for retailers.

C. INDUSTRY GROWTH IN REVENUES AND EARNINGS

- The strong growth in computer services revenues continued through the 1975-1976 recession. Based on interviews done during this period by INPUT, this growth appears to result from several factors which are active during a recession:

  - Those slowing down growth:

    . Existing business, particularly transaction driven applications such as payroll, decline in volume.
    . New applications/contracts are delayed.

EXHIBIT III-2

COMPUTER SERVICES INDUSTRY GROWTH

BY TYPE OF SERVICE

1976-1982

TYPE OF SERVICE	1976	1982	AVERAGE ANNUAL GROWTH
REMOTE COMPUTING	$1.8B	$ 5.7B	21%
BATCH PROCESSING	1.6	2.4	7
FACILITIES MANAGEMENT	.8	2.1	17
TOTAL PROCESSING	4.2	10.2	16
PROFESSIONAL SERVICES	1.1	2.2	13
SOFTWARE PRODUCTS	.6	1.9	21
TOTAL MARKET	$5.9B	$14.3B	16%

(B = BILLION)

SOURCE: INPUT REPORT "OPPORTUNITIES FOR INVESTMENT IN THE COMPUTER SCIENCES INDUSTRY" 1977 EDITION EDITION.

- Those increasing growth:

    - New applications are processed outside to avoid new hardware purchases or development costs.
    - Personnel "freezes" mean more contract work.
    - Conversions to in-house are delayed.

- In times of a strong economy, such as the present, new opportunities are created at a rate faster than applications are taken inside.

- The "worst case" for computer services is a static economy where new applications growth slows, but the migration of work in-house continues. A static economy is the least likely environment, based on historic data and current forecasts with regard to the economy. Therefore, the growth in revenues and profits for computer services will continue.

- A strong overall growth does not mean that all computer services firms will share equally in the growth and profits, nor will they necessarilly grow at a constant rate. Exhibit III-3 presents the growth and profit results for nine companies and shows the following range:

    - 1975-1976 growths of 2% to 44%.

    - First quarter 1976-1977 growths of 4% to 52%.

    - Second quarter 1976-1977 growths of 14% to 48%.

    - Earnings varying wildly from quarter to quarter.

- One of the challenges facing management is to implement incentive compensation plans which function effectively under conditions of varying short-term growth.

EXHIBIT III-3

TOTAL REVENUES AND EARNINGS GROWTH FOR LEADING PUBLICLY HELD COMPANIES WHICH EMPHASIZE REMOTE COMPUTING SERVICES

COMPANY	FISCAL YEAR END	REVENUES & EARNINGS	1975 REVENUES (CALENDAR YEAR ($ 000)	GROWTH 1975-1976	GROWTH RATE-%	
					1Q76-1977	2Q76-1977
AUTOMATIC DATA PROCESSING	6/30	R E	169,038	26%	23% 26	23% 29
COMPUSERVE	12/31	R E	8,462	35	41 53	45 38
COMPUTER SCIENCES	3/31	R E	207,275	13	2 47*	15 24*
COMSHARE	6/30	R E	13,241	11	52 14	48 126
KEYDATA	7/31	R E	14,412	2	(4) (59)	- -
NATIONAL CSS	2/28	R E	34,194	18	14 36	14 17
ON-LINE SYSTEMS	4/30	R E	10,694	44	17 17	19 21
RAPIDATA	12/31	R E	14,772	6	15 (40)	25 5,860
TYMSHARE	12/31	R E	64,534	27	12 6	19 39
AVERAGE FOR 17 COMPUTER SERVICES COMPANIES		R E		16%	18% 32	24% 22

R = REVENUES E = EARNINGS

SOURCE: INPUT REPORT "OPPORTUNITIES FOR INVESTMENT IN THE COMPUTER SERVICES INDUSTRY - 1977 EDITION"

*EXCLUDING EFFECT OF EXTRAORDINARY ITEMS

D. MARKETING BY INDUSTRY SPECIALIZATION

- Computer services markets, as stated earlier, are increasingly industry specialized. Companies are following the lead of hardware manufacturers, particularly IBM, in targeting products and marketing efforts at industry sectors and sub-sectors. Examples of services companies who have successfully built industry specialized product and marketing offerings are MCAUTO (hospital administration systems), CARS (dealer accounting), and Sun Information Services (trust accounting). This specialization has implications for marketing compensation plans as discussed in later sections.

- Exhibit III-4 shows comparative market shares and growth rates for the nine traditionally segmented industry markets. Shares range from 2% to 22% and growth rates range from 12% to 18% (with many sub-sectors having lower or higher rates than this range).

- As industry specialized markets grow in importance, management's choice of areas for product development becomes critical. This in turn impacts marketing compensation plans.

EXHIBIT III-4

COMPUTER SERVICES MARKETS SIZE AND GROWTH RATE BY INDUSTRY SECTOR

INDUSTRY	PORTION OF TOTAL 1976 MARKET	AVERAGE ANNUAL GROWTH 1976-1982
MANUFACTURING	22%	15%
TRANSPORTATION	2	16
UTILITIES	4	14
DISTRIBUTION	12	14 WHLS. 17 RET.
BANKING AND FINANCE	19	17
INSURANCE	7	12
MEDICAL	6	18
EDUCATION	2	14
GOVERNMENT	16	17 FED. 17 S & L.
OTHER	10	18
TOTAL MARKET	100%	16%

1976 TOTAL REVENUES $5.9 BILLION

SOURCE: INPUT REPORT "OPPORTUNITIES FOR INVESTMENT IN THE COMPUTER SCIENCES INDUSTRY" 1977 EDITION.

IV THE STRUCTURE OF MARKETING COMPENSATION PLANS

IV THE STRUCTURE OF MARKETING COMPENSATION PLANS

A. MANAGEMENT OBJECTIVES STATED BY RESPONDENTS

- The first element of information gathered in the interview program for this study was to determine the basic objectives of the marketing compensation plans now in effect. The question was asked at three levels:

  - Top management (typically, V.P., Marketing).

  - Middle management (typically, Region or Branch Manager).

  - Salesman (typically one with 2 or more years of successful experience).

  The results were compared to determine how the three levels perceived the plans and how well management was communicating the full intent of the plan.

- The objectives of current marketing plans are summarized in Exhibit IV-1. Significant results include:

  - Prime objectives are short term with three-fourths of the mentions being directly related to immediate revenue generation and commission.

    . Protect current base.
    . Grow current base.
    . Get new business.

EXHIBIT IV-1

RANGE AND FREQUENCY OF OBJECTIVES OF MARKETING PLANS AMONG COMPANIES INTERVIEWED

LEVEL OF MANAGEMENT	TOP MANAGE-MENT	MIDDLE MANAGE-MENT	SALES-MEN	TOTAL
PROTECT CURRENT BASE	6	1	4	11
GROW CURRENT BASE	3	5	4	12
GET NEW BUSINESS	6	3	4	13
MOTIVATE THROUGH INCENTIVES	2	1	5	8
REWARD ACHIEVEMENT	1	2	3	6
EMPHASIZE PRODUCTS	1	1	1	3
COMMUNICATE AREAS OF EMPHASIS	1	-	-	1
INCREASE PROFITS	1	-	-	1
PAY JUST ENOUGH, NO MORE	1	-	-	1
BUILD CAREER EMPLOYEES	1	-	-	1
BUILD A BILLION-DOLLAR COMPANY	1	-	-	1
INCREASE PRODUCTIVITY	1	-	-	1
COVER BASIC PEOPLE NEEDS	-	1	-	1
SUPPORT CORPORATE GOALS	-	-	1	1

(NUMBER OF MENTIONS)

NOTE: MANY RESPONDENTS GAVE MORE THAN ONE OBJECTIVE SO THE TOTALS VARY.

- Motivate through incentives.
- Reward achievement.

- Corporate-wide goals such as profitability and productivity were mentioned only once each. Interestingly, the broad objective of "support corporate goals" was mentioned only once and then by a salesman. Evidently, management views the marketing compensation plans in a narrow context of annual revenue growth and not as an instrument for attaining corporate goals.

- Personnel oriented goals also received minimum mention. One respondent stated the objective of "pay just enough and no more"; this same respondent reported one of the highest average incentive compensations as a percent of revenue. Not surprisingly, this respondent is in the process of revamping its compensation plan.

- Only one respondent mentioned "build career employees." This respondent has one of the lower turnover rates and is planning to lower it further. In this case, the objective was translated into a compensation plan with longer term growth objectives which supported the career concept.

- Clearly, the salesman sees himself on the receiving end of the system with higher mentions for the "motivate" and "reward" goals.

- Middle management reflects the pressure of being responsible for generating growth by giving highest mention to "grow current base" and "get new business." Top management shows higher concern about "protect current base."

- On balance, the short-term nature of the objectives is communicated effectively and undoubtedly contributes to both the growth of revenues for RCS and the high salesman turnover (15-50%).

B. KEY CHARACTERISTICS OF MARKETING COMPENSATION PLANS

- Top managements vary widely in their opinions of the relative importance of key characteristics of marketing plans, as shown in Exhibit IV-2. Of the key characteristics listed, none received unanimous "high" importance. This diversity of opinion is reflected in the diversity of marketing plans.

- Although "support corporate objectives" was not mentioned by top management as a goal, it receives high importance as a key characteristic of marketing plans. This indicates an agreement that management must design plans which support broader issues than only growth and compensation.

- Teamwork is rated lowest of the characteristics by top management. This is in conflict with the attitude of some salesmen who responded as follows to the question, "What is the most effective motivator?":

  - "Group, team spirit."

  - "Be around successful people."

  - "Personal involvement."

  - "Team effort on a local basis."

C. DETAILS OF INDIVIDUAL SALESMAN COMPENSATION PLANS

- Ten plans were evaluated and a summary is presented in Exhibit IV-3. In the descriptions which follow, a sample compensation calculation is included, as well as management comments regarding the strengths and weaknesses of the plans as management perceives them. The wide diversity of approaches and the readiness of management to make changes is evidence of the dynamic

EXHIBIT IV-2

TOP MANAGEMENT RATING OF IMPORTANCE OF KEY CHARACTERISTICS OF MARKETING PLANS

RESPONDENTS	RESPONDENT RATING											TOTAL
	1	2	3	4	5	6	7	8	9	10	11	
NEW BUSINESS	4	3	5	3	5	5	4	5	4	5	4	47
MAINTAIN EXISTING BUSINESS	4	5	5	3	4	4	5	5	5	5	4	49
SALESMAN MORALE	5	5	5	3	3	4	2	5	1	4	2	39
TEAMWORK	1	4	3	4	1	2	2	3	1	3	2	26
INDIVIDUAL EFFORT	5	4	5	4	2	5	5	5	1	4	2	42
PROMOTE SPECIFIC PRODUCTS	3	2	2	3	3	1	4	3	3	4	3	31
SUPPORT CORPORATE OBJECTIVES	3	5	3	5	4	5	4	5	2	5	5	46

(5 = HIGH, 0 = UNIMPORTANT)

EXHIBIT IV-3

SUMMARY OF SALESMAN INCENTIVE COMPENSATION PLANS

CHARACTERISTIC OF PLAN	NUMBER OF PLANS HAVING CHARACTERISTIC
QUOTA FOR REVENUES (BILLINGS)	9
QUOTA FOR CONTRACTS (FUTURE BILLINGS)	1
QUOTA FOR NEW ACCOUNTS	2
NO QUOTA	1
NEW ACCOUNT INCENTIVE	5
STRAIGHT COMMISSION RATE	6
ACCELERATED COMMISSION RATE	4

(TEN PLANS ANALYZED)

nature of these plans. Some summary conclusions are included in Chapter VII, "Overall Analysis."

I. A PLAN WITH A FIXED AMOUNT PAYOUT TARGET

- In this plan, $270,000 per year is "base." Individual quotas are related to this base. Two examples of salesmen working under this quota are:

Example	Individual Quota	Revenue Achievement	% Over Quota	Factor Applied	Combine Previous 2 Columns
A	$135,000	$162,000	20	$\frac{135}{270}=5$	100 (5 X 20)
B	270,000	297,000	10	$\frac{270}{270}=10$	100 (10 X 10)

In example A the salesman exceeded quota by 20%, but since his quota is half of the "base," his multiplier is half of Example B whose quota equals the base. The income of the two salesmen would be:

<u>Example A</u> - Assuming a target income of $24,000 per year which is 60/40 salary/incentive:

$14,400	Salary base
9,600	Incentive base
$24,000	Target
9,600	At 120% of quota pay additional 100% of incentive base
$33,600	

<u>Example B</u> - Assuming the same basis:

$24,000	Target
9,600	At 110% of quota pay additional 100% of incentive base
$33,600	

- The effect is to pay a constant rate of commission ($0.17 for every dollar <u>over</u> quota is the company target) on all sales. The plan requires that commissions be paid monthly. Since revenues are cumulative, a salesman may fall behind and have difficulty catching up. For revenue achievement less than quota, the salesman receives a commission directly related to his percentage achievement of quota.

- Management comments regarding the plan include:

  - The basic concept is that the salesman has a high incentive to reach quota. Once over quota he can earn multiples of that base as shown in the examples and get into "big money."

  - It is essential that quotas be realistically set, and adjusted if necessary, otherwise salesmen become demotivated.

  - A graduated new business payment is part of the plan with $150 for the first new account, $250 for the second, $350 for the third, and $500 for the fourth and subsequent accounts. To qualify, the new account must have multi-thousand dollar per month of billing potential.

  - The concept is to set the quota to cover the basic costs of running the company, and then have the salesman share in revenues which contribute to profit.

  - In the coming year, a new account bonus will be added for managers and support people which will be paid when an account bills a certain amount of dollars.

  - Management feels the incentive works very well if the quota is well set.

2. A PLAN TO PROVIDE INCOME PROTECTION WITH GROWTH

- In this plan, a base salary is paid. Commissions are paid for both quota attainment and revenue growth over assigned territory base. The schedule is:

70%	salary.
30%	commission for quota attainment of 100% or greater (for quota performance greater than 60%, % equivalent to attainment up to 100% determines quota performance payment).
5%	of first $50,000 of NIR (Net Increase in Revenue) over base assignment.
10%	of second $50,000 NIR.
15%	of everything over $100,000 of NIR.
5%	for new account revenues.

Under this plan, a salesman may have a monthly base revenue quota of $20,000 = $240,000/year. He may also have a monthly NIR of $1,000 which is accumulated by sum-of-the-digits method to equal $78,000/year. His annual quota is then $318,000/year. Assuming his revenue achievement is $320,000/year and his base salary is $15,400 per year, his income is:

$15,400	salary.
6,600	commission (for achieving quota of $318,000).
2,500	5% of first $50,000 of NIR.
3,000	10% of $30,000 of NIR ($80,000 - $50,000 = $30,000).
$27,500	

Other payments, such as a 5% bonus for NIR from new accounts, are additional. NIR is considered separate from new account revenue, with 70% of NIR coming from existing accounts.

- Management comments included:

  - The salesmen are pleased with the plan as it provides an opportunity to earn commissions as a function of both quota performance and revenue growth in their territories, as well as pay a premium on new account revenue.

  - Commissions paid for incremental revenue growth at 5%, 10%, 15% rates has proved productive.

  - The plan has allowed management to improve productivity through higher quota assignment, because salesmen income is not totally related to performance against a pre-established objective but on territory revenue growth.

  - Changes contemplated to enhance the plan include higher incentives, product emphasis and a tie to growth objectives.

3. A PLAN WITH QUOTAS FOR BOTH CURRENT REVENUES AND CONTRACT SALES

- In this plan "revenues" are considered to be actual billings. "Sales" are contracts executed with a client with billings forecast for 12 months. The 12-month billings are credited at the time the contract is signed:

  - Commissions on revenues are paid monthly as billed.

  - Commissions on sales are paid at the initiation of the contract. If no billings are made under the contract for 90 days, the sales commission is charged back to the salesman. If billings lag the contracted amount after 90 days, a portion of the sales commission may be charged back at the discretion of the branch manager.

- A typical quota assignment is:

$15,000	salary.
$10,000	commission base of which:
	$6,000 is revenue base.
	$4,000 is sales base.

At 100% of either revenue or sales in a given month, the salesman receives the base. For example: $6,000 divided by 12 = $500 for each month he achieves his revenue quota. On sales above quota, an accelerator applies. For the total year, the salesman's commission could build as follows, based on the above quota assignment and attainment of 200% of sales quota, 100% of revenue quota:

$15,000	salary.
16,000	sales ($4,000 base X 4 (accelerator)).
6,000	revenue ($6,000 base X 1 (for 100%)).
$37,000	

- Comments include:

  - The high dollar opportunity, particularly regarding the sales quota, is a potent motivator.

  - The timing of a "sale" is important. If it comes early in the year, the salesman benefits from the revenues generated through the year. If it comes late in the year, he doesn't get the revenue and the next year's revenues are included in his quota, so he is unhappy.

  - Money is paid on "sales" which are not realized fully as revenue.

  - As the base of business grows, there is a shift from "sales" to "revenue" quotas.

- Current management thinking is to tie commissions to "revenues" (vs. "sales") and thereby simplify the program. Since the "sales" quota is directed at new business, elimination of the "sales" quota is anticipated to require some alternate management tool to focus on new business, such as a new account bonus.

4. A SIMPLE PLAN AIMED AT LONG-TERM GROWTH

- In this plan, commissions are paid at a straight 2% rate on billings plus an accelerator over 100% of quota. For each percent over 100, the salesman receives $100, up to a maximum of $2,000 (120%). In the case of very large accounts, the 2% rate may be adjusted. A typical income under this plan for a salesman with a quota of $300,000/year and billings of $360,000 is:

$18,000	salary.
7,400	commission at 2% of total billings.
2,000	accelerator for $60,000 billings (20% over quota).
$27,400	

- In this plan, no additional incentives are paid for new business. Heavy emphasis is placed on a "100% Club" which is targeted at 50% of the salesforce and intended to appeal to the top producers; wives are invited to attend and the club is designed along the lines of IBM's "Golden Circle."

- Management comments:

  - A strength of the plan is its simplicity. There are almost no disputes regarding quotas, commissions.

  - The accelerator is a recent enhancement designed to reward top producers and has worked well.

- A ceiling on earnings which had been enforced until recent years was removed; it had made recruiting more difficult.

- The "100% Club" format is very effective and is considered to be the main incentive.

- Some consideration is being given to providing an added incentive for closing new business. Now maintenance of existing business is paid at the same rate as new business. This is not considered to be a serious problem since maintenance of existing business is given a high priority.

5. A PLAN FOR A SMALLER COMPANY WANTING REVENUE GROWTH

- In this plan, incentives are paid on all revenues. The objective is to build revenues over a relatively small base. For each assigned account, a "base" revenue is established equivalent to existing business. The commission rate on base revenue is 2.5%. Revenue over base or revenues from new accounts earn a commission of 8.5%. As the year progresses, some of the new revenue is converted into base, essentially by utilizing a rolling nine month average of billings per account. A typical income under this plan for a salesman with an average base of $100,000 and achievement of $200,000 is:

$15,000	salary.
2,500	commission (2.5% on $100,000).
8,500	commission (8.5% on $100,000).
$26,000	

- Quotas are also assigned but have a relatively minor effect. A 10% override is paid on commissions for each month the salesman is over quota. In the above example, the maximum would be 10% of the $11,000 in annual commission or $1,100.

- $300 is paid for each new account which bills at least $3,500 within the first three months after the contract is signed.

- Management comments include:

  - Salesmen know they can make money by selling new business and they react. Revenues have doubled per month in the period January - October.

  - The plan should be more quota dependent as a means of getting more revenue per dollar spent on incentives.

  - The bookkeeping to run the plan is a "horror show."

  - To help salesmen get started, they are usually given 3 months on non-recoverable draw, and 3 months on recoverable (offset against future commissions) draw.

  - Planned changes include an increase in the new account bonus and an increase in the bonus paid for above-quota performance.

6. A PLAN FOR GROWTH WITH NO COMMISSION ON EXISTING BUSINESS

- In this plan, each salesman is assigned a "base" roughly equivalent to existing business from his territory. He also is assigned a quota for growth which varies between $800 per month and $1,200 per month depending on his length of experience and other factors. In the following example, base is assumed to be $10,000 per month with a $1,000 per month growth quota. With sales of $12,010 in the first month of the year and commission of 10% on growth business and 13% on new account business, the salesman's income is:

	Commission
$ 1,200	salary assuming $14,400 per year.
0	commission from first $10,000/mo.
201	commission (10% of revenues over $10,000).
130	commission ($1,000 was new account).
100	commission (10% of everything over quota. Quota in first month is $10,000 + 1,000; in the second month $10,000 + 2,000, etc.).

$1,631/mo X 12 = $19,600/yr assuming constant quota attainment through the year.

- At sales of 18,000 per month with $6,000 of new account sales, the salesman's income becomes:

$1,200	salary (as in the previous example).
0	commission from first $10,000/mo.
800	commission (10% of revenues over $10,000).
780	commission (13% for new account sales).
800	commission (10% for everything over quota).

$3,580/mo X12 = $42,960 assuming constant quota attainment through the year.

- The leverage comes from the combination of incentives up to 10 + 13 + 10 = 33% on new account revenues over quota.

- In addition to the above compensation, salesmen are paid a straight 8% commission on any programming services sold. These payments are outside of the plan and do not involve quota.

- Management comments include:

  - The emphasis on new business, even at the expense of losing existing business, is intentional. Old business is viewed as being inherently vulnerable; e.g., raw time, and management wants more applications-oriented business which has a longer term potential.

- The monthly quota calculation is too short term.

  . Some applications, such as financial applications, are quarterly.
  . Summers are typically slower and penalize the salesman.
  . As minis are built into product offerings, there will be more large, intermittent sales, therefore, management is contemplating a longer commission period; e.g., quarterly.

- The plan has worked particularly well in rewarding high performers. Others don't do well, as shown in the above examples.

- In 1978, management intends to tie compensation more closely to quota since the current plan is more dependent on base than quota.

- Management also is considering adding a provision to reward according to the profitability of the sale.

7. A PLAN GIVING ALL SALESMEN THE SAME BASE

- In this plan, all salesmen have a base of $20,000/month, regardless of account mix or past revenues. An 8% commission is paid on revenues over base:

  - Plus 0.5% for each increase of $5,000.

  - Up to a maximum of 15%.

  - Revenue for existing business is reduced by one-third after one year for purposes of calculating commissions.

Under this plan, a salesman with sales of $32,000 in a given month and a salary of $18,000 per year would earn:

$ 1,500	salary.
400	commission (8% of $5,000 over base).
425	(8.5% of next $5,000 over base.)
90	(9% of $1,000 over base*.)
$ 2,415	
$28,980	on an annualized basis.

* Assuming $3,000 of the $12,000 over base represented year-old repeat business. This was, therefore, reduced by one-third, leaving a net over quota of $11,000.

- Management comments included:

  - The program is non-cumulative. A salesman therefore could have below-base months and then have a "bulge" and capitalize on the multiplier. However, because revenues seldom dip below the base, this has not been a problem.

  - On sales of large batch applications, the commission may be reduced if the sale required discounting.

  - A problem with the plan is that a salesman can develop $40,000/mo. of on-going business and be tempted to relax on monthly commissions of $1,750 plus salary.

  - Management is considering installing a quota system in the next fiscal year, lowering salary levels and instituting a new account bonus as a means of increasing the incentive for new business growth.

  - As a preliminary step to installing salesman quotas, a branch manager quota was installed during the past year.

8. A PLAN COMBINING RCS AND SOFTWARE SALES

- Under this plan the salesman has a quota for OBR (Old Business Revenue) and NAR (New Account Revenue). Regions (not salesmen) also have a software quota. A software sale may take place when a client decides to install in-house a package he had been using on a Remote Computing Service. The commission rates applying are:

1.5%	on OBR.
6.5%	on new business at existing accounts.
10.0%	on business sold to new accounts.
8.0%	on sales of software.

An example of a monthly salesman income assuming RCS sales of $5,000 of OBR, $1,000 of new revenue of existing accounts, $2,000 of NAR and $50,000 representing a software sale:

$ 1,500	salary.
75	1.5% X $5,000 OBR.
65	6.5% X $1,000 new revenue at existing accounts.
200	10.0% X $2,000 new account revenue.
4,000	8% X $50,000 a software sale.
$ 5,840	
$70,080	on an annual basis.

- In addition, the above quota performance incentive would apply to the year-to-date quota achievement on OBR. The software sale would count in this calculation and could yield up to an additional 20% on OBR sales for the month, including the software sale. Although software sales are infrequent, they do result in very significant income to the salesman when they occur.

- Mangement comments include:

  - The sale of software often means an end to a stream of RCS revenues based on that software as the application moves in-house. The high commission is justified because:

    - The RCS client gets technical support - the software client does not.

    - The revenues for software are immediate - the RCS revenues come in over time.

    - The RCS revenues are vulnerable anyway, if the client will consider taking the application in-house.

  - Management plans to use a team of software specialists in the coming year who will have a quota for software.

  - Management is pleased with the plan. The new account incentive is a recent addition and is working. No other changes are contemplated.

  - High commissions are viewed as evidence of success - "the more commissions we pay, the more money the company makes," was one opinion.

9. A PLAN TO ACCOMMODATE BOTH LARGE AND SMALL BRANCHES

- In this plan, two alternatives are included. Plan A is for smaller branches who are starting with a low revenue base. The base salary is substantial, and the incentive is related to achievement over quota. For example, a salesman may have a base salary of \$20,000 and an incentive base of \$6,000. He receives:

  - 1% of his incentive base for every 1% over quota.

  - 1-2% of all revenues over quota.

- A typical income under this alternative assuming a quota of $200,000 and annual sales of $300,000:

$ 20,000	salary.
3,000	50% of $6,000 for being 50% over quota.
2,000	assume 2% of all revenues over quota.
$ 25,000	

- Under this option the salesman has a good chance to be 50% or more over quota by closing several large accounts.

- Plan B assumes larger existing revenues and therefore assigns both a revenue incentive and a new account quota. Quotas normally are in the $300,000 range. The typical target income is:

  40% salary.
  45% revenue incentive.
  15% new account incentive.

- As an example of income under this plan in the third month of the commission year, assume a target income for the year of $20,000 and:

Actual sales	$29,000
Year-to-date sales	79,000
Monthly quota	27,000
Year-to-date quota	78,000

  The salesman is $2,000 over quota for the month, and $1,000 over quota year-to-date. The calculation is:

  $20,000 X 45% revenue incentive X 3rd month divided by 12 X 79 divided by 78 - $1,029.41 (commission paid during the first 2 months) = $1,249.44. Therefore, the salesman's income for the month is:

$1,249.44	
60.00	over quota bonus (6% X$1,000).
666.00	salary ($20,000 X 40% X 1/12).
$ 1,965.44	or $23,580 per year.

This plan in effect pays more for growing the base.

- In addition, the salesman is paid a new account bonus of $1,000 for any large new account which bills $6,000 in six months. Smaller new accounts are rewarded with bonuses of $200-400 each, depending on the salesman's compensation level.

• Management comments include:

- The bonus for over quota performance has worked very well.

- In recent years, management has changed the percent commission versus salary, the percent over quota bonus, and the bonus for new accounts, all with the objective of optimizing the emphasis between existing business and new accounts. the current mix is considered satisfactory.

- Management is now considering product commissions tied to:

  . Corporate goals.
  . Profit objectives.
  . Strategic plans.

- Previously, product promotions were limited to new products and were not part of the compensation plan.

10. A PLAN WITH PARALLEL INCENTIVES FOR SALESMEN AND MANAGERS

- In most marketing compensation plans, managers are paid on the basis of revenue attainment in their branch in a manner significantly different from their salesmen. In this plan, a parallel structure is used, as follows:

Sales Per Month	Salesman	Branch Manager
Up to 100% of quota	Up to 100% of his incentive base	Up to 100% of his incentive base
Over quota	15% if over quota year-to-date	8% if over quota year-to-date
	7% if <u>not</u> over quota year-to-date	4% if <u>not</u> over quota year-to-date

- Because the branch manager has several salesmen working for him, he has leverage to make substantial earnings, often exceeding those of the top salesmen.

  - Typical calculations for salesmen under this plan (assuming 90% attainment of a $24,000 quota) are:

$1,200	salary.
720	(90% of an $800 incentive base.)
$1,920	

  - Assuming $26,000 attainment versus a $24,000 quota and year-to-date attainment over quota:

$1,200	salary.
800	(100% of incentive base).
300	(15% of $2,000 attainment over quota).
$2,300	

- Under this plan there is no new account incentive.

- If a salesman gets a long-term contractual commitment from a client, the salesman will be paid a "kicker" of $300-2,500 based on the contract minimum.

- Management comments include:

  - The new account bonus was discontinued because it was causing too much attention to be paid to new business at the expense of increasing revenue from existing clients.

  - As applications become more specialized, it is often easier to get new accounts on specialized applications than it is to get additional revenue at existing accounts.

  - The branch manager is the key man in the marketing organization and he should be compensated accordingly.

  - Increased specialization is necessary to avoid being impacted by in-house systems, particularly minicomputer-based.

  - Management is planning specific incentive for specialty products because these products tend to stay installed longer and are portable.

  - Otherwise, management is pleased with the plan, particularly its simplicity. Incidently, the salesman interviewed called it "the best in the nation."

D. SALES MANAGERS INCENTIVE COMPENSATION

- Incentive compensation for sales managers, in all cases, was based primarily on revenues over branch quota. In many smaller branches one man carried out both the sales manager and branch manager functions and the two titles were used interchangeably. This difference in incentive compensation between salesmen and managers caused a conflict in some cases where salesman compensation was based on other elements such as contract sales. The trend is for salesman and manager compensation to be more parallel with managers sometimes having additional incentives for expense control, profitability, etc. A summary of Branch Manager's Incentive Compensation Plans is given in Exhibit IV-4. Highlights of some individual plans are:

  - 65/35 salary/commission target based on revenue as quota. District managers also have a profit target.

  - 70/30 salary/commission target. Of the 30% incentive, 7.5% is based on controlling office expenses, 22% on revenue. The branch manager also has a new account quota, but it is not tied to the incentive.

  - 70/30 salary/commission target tied to a quota. Larger branches also have an accelerator tied to the commission to recognize the greater inertia inherent in larger existing revenue bases.

  - The manager has a base derived from the last 3 months of business. Also he has a growth quota of $1,000 per salesman, per month. He receives 0.2% of the base attained plus 2% of anything above the base. For any month he achieves quota, he gets $500 bonus. If he is also on quota year-to-date, he receives an additional $500.

  - An incentive of $125 per percentage point over quota per month up to 120%.

EXHIBIT IV-4

SALES MANAGERS' INCENTIVE COMPENSATION PLANS

TYPE OF INCENTIVE	NUMBER OF PLANS HAVING CHARACTERISTIC
COMMISSION ON BILLINGS OVER QUOTA EACH MONTH	10
ADDITIONAL BONUS FOR MAKING QUOTA, OTHER OBJECTIVES	3
EXPENSE CONTROL	1
PROFITABILITY	2
OVERRIDE ON NEW BUSINESS	1

(TEN PLANS ANALYZED)

- 66/33 salary/commission target tied to revenue quota attainment.

- 1% of all revenue for the branch plus 8-10% of all over-quota revenues for the branch.

- .003% of base account revenues, 1% of new account revenues.

- Branch managers were generally satisfied with their incentive plans "if the quota is set fairly." One manager was given a quota of $450,000 after a prior year achievement in the branch of $66,000. As of November,he expected to achieve $200,000 for the year which although it was 300% over the previous year, was only half of quota. Needless to explain, he felt his quota was too high.

  - Several managers wanted accelerators for over quota performance.

E. ALTERNATE SOLUTIONS TO SUPPORT PERSONNEL INCENTIVES

- Of the 11 companies surveyed, 5 had no incentive program for support personnel. Of those who had incentive programs, reasons given for having them included:

  - "A tool to protect existing business."

  - "A means of building teamwork between sales and support."

  - "Sometimes tied to specific products or markets to give special emphasis."

- The incentive portion of the total compensation is typically 20% or less. Installing higher incentive contents has met with resistance from support personnel who tend to prefer security to the prospect of potentially higher compensation. A summary of support personnel compensation plans is given in Exhibit IV-5. Details of typical individual plans are:

- 80/20 salary/commission based on branch office revenue.

- Up to 15% of salary based on branch performance on revenue compared to quota. This plan replaced one which assigned individual quotas. It was difficult to tie performance to effort and the support personnel wanted to get off quota. According to management, the current plan "works a little better each year."

- If the office is on quota for the quarter, each support person gets $300.

- 1% of branch revenue goes into a pool which is then allocated to support personnel on the basis of performance. If the branch is over quota for the month, an additional 8% is allocated.

- The support person gets an override on sales of the product in which he specializes. The override typically is 10-15% of revenues.

F. MANAGEMENT EXPERIENCE WITH INCENTIVES OTHER THAN COMMISSION

- Bonuses, product promotions, "100% Clubs" and stock options are features of many marketing compensation plans. A summary of the use of these incentives in the 10 companies surveyed is presented in Exhibit IV-6. While usually secondary to commission, they combine to add significantly to management's available mix of incentive tools. Particulars within individual plans include:

EXHIBIT IV-5

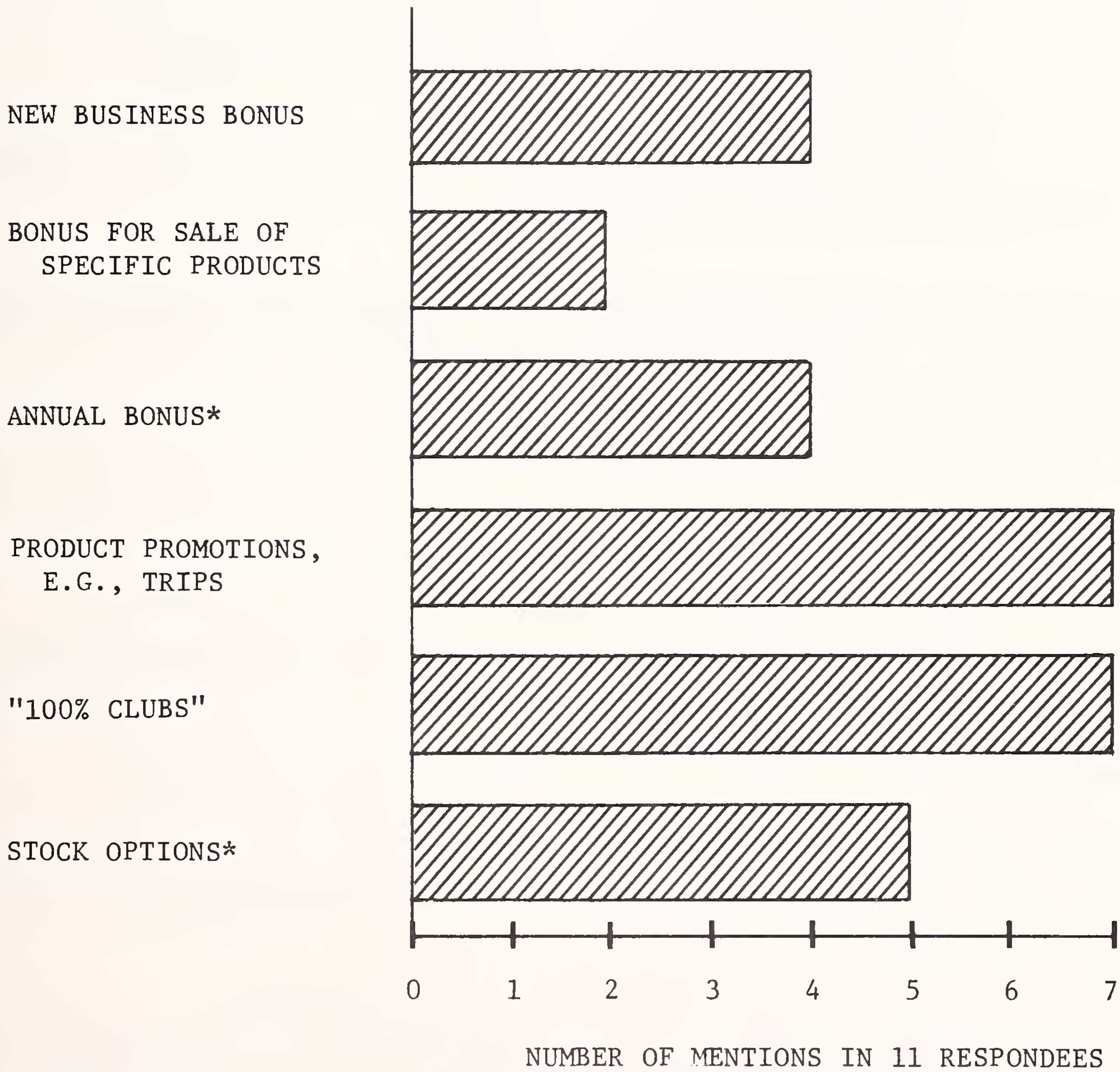
SUPPORT PERSONNEL INCENTIVE COMPENSATION PLANS

TYPE OF INCENTIVE	NUMBER OF PLANS WITH CHARACTERISTIC
NO INCENTIVE (SALARY ONLY)	5
INCENTIVE BASED ON MONTHLY BRANCH REVENUE	3
INCENTIVE BASED ON QUARTERLY BRANCH REVENUE	1
1% OF BRANCH REVENUE GOES INTO A POOL DISTRIBUTION BASED ON PERFORMANCE	1

(TEN PLANS ANALYZED)

EXHIBIT IV-6

USE OF INCENTIVES OTHER THAN COMMISSION



*TYPICALLY FOR MANAGERS ONLY. MENTIONED ONCE FOR TECHNICAL, SALES PERSONNEL.

- Sales contests are sometimes used. There is difficulty separating special effort from luck. For example, an accounting department at a client firm may initiate a new project and need services; if this coincides with a contest, the salesman on that account will benefit even though he put out no special effort.

- On sales of non-RCS, such as programming services, a special 8% bonus applies outside of the regular plan.

- On a special product, a $200 bonus applies. Although not considered too effective as a motivator, management feels that the bonus communicates management's desire to have the product emphasized.

- One sales contest which met some success was aimed at technical support personnel. The rules were:

    - Each person picked 4 target accounts and got points for revenue increases and sales of special products.

    - The contest lasted four months.

    - The winners and their wives got a trip to Hawaii.

  The winners thought the contest was great; the losers did not. On balance, management felt the contest improved the morale of the technical support people.

- Company cars are not offered to salesmen at any company surveyed. One company offers managers the option of leased cars at company expense.

- Mileage allowances typically are $0.15 per mile with one respondent paying $0.12, and another $0.13. No company yet has increased the allowance to the $0.17/mile now allowed by the Internal Revenue Service.

- Stock options are offered at 5 of the 11 companies interviewed. With one exception, they are not offered to salesmen, but are restricted to branch managers and above. While options are not now considered to be a strong incentive to attract people, they generally are looked upon as an incentive to retain management-level personnel.

- In one company interviewed, duplicate commissions are paid for clients designated as multi-national or national accounts. In sales to such accounts, the commission is paid both to the salesman covering the headquarters of the client, and to the salesman covering the using unit (they may be the same salesman, in which case he receives double commission). Reasons for installing such a structure are to focus attention on key large accounts, and to achieve cooperation between accounts covered by different salesmen in different locations. Management was satisfied with results achieved to date under the procedure.

- One company offers a salaried savings plan wherein 8% of salary is matched by the company and invested in 3 funds - a bond fund, a diversified common stock fund, and a fund made up of the company's own stock. The plan is felt to contribute to salesman stability and reduce turnover.

- Several companies select a "Distinguished Salesman of the Year" and feel it is a productive procedure.

- Experience with product promotions varied widely with the following comments from top management:

  . "Non-monetary incentives don't work."

  . "Moderately to very successful."

  . "Use only for new products, not established ones."

- "Very effective short term."
- "Not effective."
- "Used a sales blitz effectively."
- "Were ineffective due to poor design, no follow-up."

- "100% Clubs" were used by 7 of the 11 responding companies. Another company is planning one for 1978 while yet another has one under consideration.

  - One company considers it "the most important element" of the marketing compensation plan.
  - Another company who targets only 35% of the sales force to make the club terms it "extremely effective."
  - One company has a "100% Club" and an "Achievement Plus" club for those reaching 125% of quota.
  - Targeted attendance at "100% Clubs" ranged from 35% to 75% of the sales force.

G. WHEN IS NEW BUSINESS REALLY NEW BUSINESS

- Four of the 11 companies surveyed awarded bonuses for new business and 2 had actual quotas for new business. The definition of just what constitutes "new business" varied, as did the incentives paid. Types of incentives are shown in Exhibit IV-7. Definitions of "new business" (at companies participating in the interviews) include the following:

EXHIBIT IV-7

TYPES OF INCENTIVES FOR NEW BUSINESS

TYPE	EXAMPLE
GRADUATED BONUS	\$150 FOR FIRST NEW ACCOUNT 250 FOR SECOND 350 FOR THIRD 500 FOR FOURTH AND SUBSEQUENT NEW ACCOUNTS
OVERRIDE MINIMUM	5% OVERRIDE ON FIRST YEAR'S BILLINGS
BONUS WITH MINIMUM	\$300 BONUS IF THE ACCOUNT BILLS \$3,000/YR
HIGHER COMMISSION	10% ON NEW BUSINESS VS 1.5% FOR MAINTENANCE OF EXISTING BUSINESS
RELATE TO SALARY	\$200-400/NEW ACCOUNT DEPENDING ON SALESMAN'S SALARY LEVEL
LARGE SPECIAL BONUS	\$1000 FOR A NEW ACCOUNT WHICH BILLS \$6,000 IN 6 MONTHS

- A client who has not been a customer for 12 months.

- Sales of a new product to an active client.

- Must be a pre-identified client who is:

  . A Fortune 1000 company or equivalent.
  . A large division or subsidiary of such a company.
  . Capable of buying multi-thousands of dollars per month of services.

- Must bill $3,000 per year in new revenues.

- Must bill $1,500 over a 3 month period.

- Must bill $3,500 in the month it is signed, plus the following three months.

- If it is a division of an existing client, it must be an autonomous division.

- In one plan a salesman gets a 5% override on the first year's billings on new accounts provided it is a "registered account:"

  . Each salesman submits a list of 12 accounts to "register" them.
  . After 3 months he can update the list to reflect closes and duds.
  . If the account reaches $2,500 in the first 90 days, the salesman receives an additional $150.
  . To date, the plan has not "gotten people excited," to quote management.

- Payment of the bonus may be staggered with at least one company paying 1/2 of the bonus when the account is sold, and 1/2 when the target revenues are reached.

H. QUOTAS, SALESMAN INVOLVEMENT, AND RESULTS

- Of the 10 companies interviewed who used quotas, three involved the salesman significantly in the quota setting process. A profile of the 10 companies is shown in Exhibit IV-8. The prevalent method of quota setting is clearly "top down" versus "bottom up." Individual procedures and management comments were:

  - Although currently setting quotas top down and "hopefully reflecting reality," one company is switching to a more bottom up procedure:

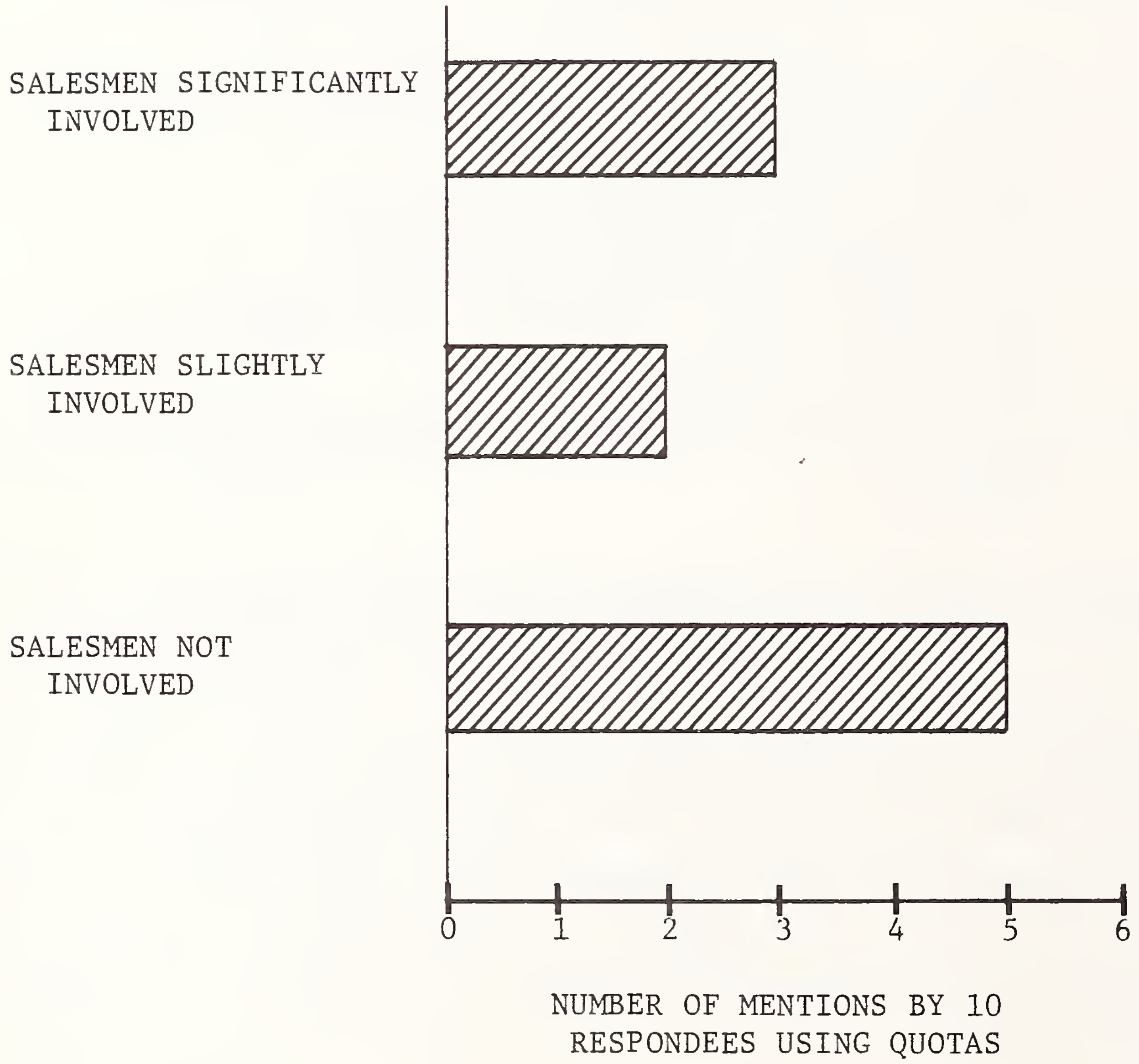
    1. Evaluate existing business per sales territory.
    2. Assess territory potential.
    3. Assess the salesman (experience, capability).
    4. In October, discuss quotas with the salesmen.
    5. Assign quotas January 1st, based on the results of the first 4 steps and the total plan.
    6. The salesman, upon acceptance of the quota, signs an acknowledgement.

  - Another company is switching to a more bottom up procedure after a disastrous 1977 performance following a very successful 1976. Top management had targeted a growth rate in 1977 equal to the 1976 achievement and the rate could not be sustained. The result was poor morale, high turnover, and a return to reality in forecasting. Management has now carried out reviews at the branch office level and identified potentials and exposures. A minimum growth target will be assigned by top management tempered by the results of the branch office reviews.

  - In another company, the process starts four months before the end of the fiscal year when the branch manager inputs his forecast. This is followed by development of a revenue plan and a breakdown of quotas

EXHIBIT IV-8

SALESMAN INVOLVEMENT IN THE QUOTA SETTING PROCESS



- In summary, quotas are determined largely at a corporate level. There is an increasing involvement of middle management and some involvement at the salesman level. No one has found a simple way. One district manager estimated that he spends 3 weeks per year discussing quota adjustments after quotas are assigned. With all of this difficulty, quotas are here to stay with:

  - The one company interviewed who did not have a salesman quota system planning to install one.

  - Management tending to tie more of compensation to quota rather than less.

  - Management investing more time in the quota setting process, rather than simply extending past growth rates.

V MANAGEMENT ISSUES REGARDING PERSONNEL

V MANAGEMENT ISSUES REGARDING PERSONNEL

A. TURNOVER, A MAJOR ISSUE

- In all discussions with management regarding marketing plans, high turnover was recognized as a major problem. With rates of 15-50% and an average turnover rate of 34%, this means the average RCS salesman stays with his employer less than three years.

- One manager estimated the cost of a single attrition at $106,000, based on records kept by the company, a major RCS vendor. Assuming a sales force of 50 people and a 34% turnover rate, this equates to an annual cost of $1,802,000!

- Management had several reasons for the high turnover, and the difficulty of changing it:

  - Nobody in the business is developing people fast enough for a market growing at 20%+ per year. Therefore, companies are competing with each other for a finite trained labor supply. One manager described job switches made for "imagined money."

  - Salesmen become discouraged due to poor product reliability and poor support. When these problems become long term, they tire of facing unhappy customers.

- Some people can't handle the complexity of the job. They don't succeed under a quota system, become discouraged, and leave.

- Due to poor personnel selection, many must be fired.

- By hiring experienced salesmen from another company, the hiring company gets the second-rate performers. In the words of one manager, "They weren't any good, or they wouldn't have left the other company." The same manager felt that you can hire a good salesman only if you offer him a management position.

- The glamour which surrounded "timesharing" in the late 1960s does not apply to the RCS industry today. In one manager's opinion, the new blood is being attracted to the mini/microcomputer industry which now has the spotlight. This has resulted in a reduced influx of good, new people.

• A summary of turnover rates and reasons given for leaving are presented in Exhibit V-1. The rates shown are for current experience and vary over time in each company.

  - The company reporting the lowest rate, 15%, had completed a "housecleaning" during the previous 18 months and had experienced turnover in the 40% range. It expects to stabilize at 20%.

  - One company reporting a 40% rate was in a period of high firings and would have reported a 15% rate without the firings. The firings were motivated by a desire to be rid of "marginal employees."

• Of the reasons given for turnover, "fired" was the most important, as shown in Exhibit V-1. This is strong evidence of poor personnel selection, given the reality of a short supply of experienced personnel. One company is approaching the selection issue by creating, in effect, an in-house personnel search capability at a corporate lever. Significantly, this company had reported a 50% turnover, three quarters of which was due to firings.

EXHIBIT V-1

TURNOVER RATES AND REASONS FOR LEAVING

	BY RESPONDENT											
TURNOVER RATE	25%	40%	35%	25%	40%	45%	30%	15%	25%	35%	50%	
RATING OF REASONS FOR LEAVING	BY RESPONDENT											TOTALS
OFFER FROM ANOTHER COMPANY	2	2	5	4	4	4	4	2	3	4	3	37
UNHAPPY WITH YOUR COMPANY	3	2	2	2	5	5	4	4	1	4	2	34
FIRED	4	5	4	5	5	2	4	3	2	4	5	43
OTHER	1	*3	0	0	0	0	0	**4	0	0	0	8

(RATING 5 = HIGHEST, 0 = LOWEST)

*PEOPLE DECIDE THEY DON'T LIKE THE SALES ENVIRONMENT, AND EITHER TRANSFER OR RESIGN

**PRODUCT TOO COMPLEX

- With the importance of turnover recognized, one company was attempting to make reduction of turnover a part of the manager's compensation package but had not yet found an acceptable formula.

B. RECRUITING TECHNIQUES

- Recruiting is almost universally done at the branch level and is a major activity of the branch manager.

- The basic techniques used are charted by frequency in Exhibit V-2. Although newspaper advertising is used most often, it is held in low regard as evidence by these comments of managers:

  - "Want-ads are so ineffective its pathetic."

  - "Newspaper advertising is non-productive."

  - "Have tried ads with little success."

  - "Newspaper ads get the dregs."

- In spite of this low regard, the easy availability of ads, and the hope of finding what one manager described as the "one good one in twenty," perpetuates advertising as a technique.

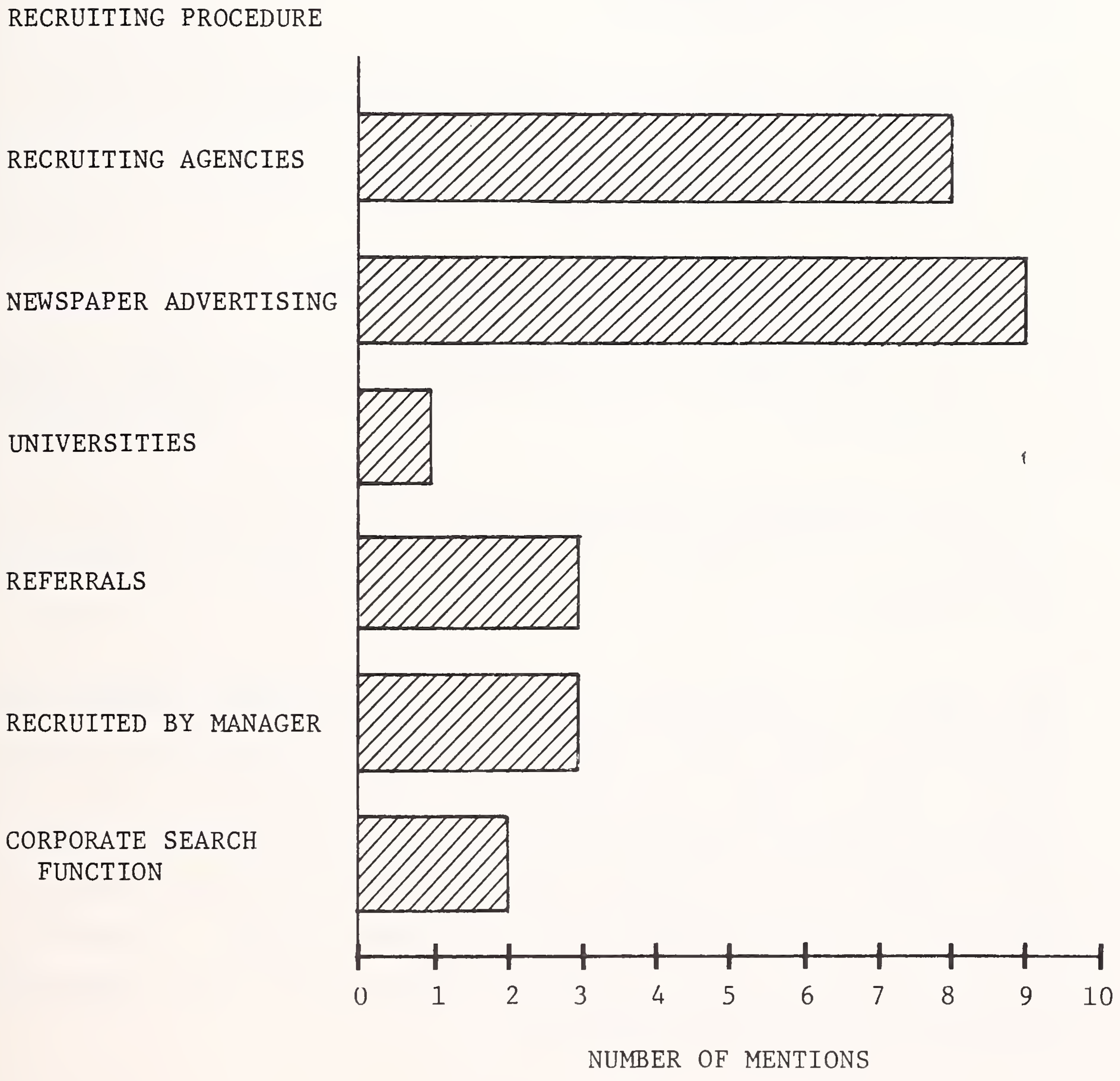
- Agencies were generally considered the most useful, largely because they perform the screening function. Management comments included:

  - "If you get a good agency in a city, you use them 100%."

  - "80% of new hires come through agencies."

EXHIBIT V-2

RESPONDENTS CHOICE OF
ALTERNATIVE RECRUITING PROCEDURES



- Internal technical people are a source of sales personnel in many companies. One reported averaging 20% of their new salesmen coming from the technical support ranks.

- One manager who recruited on the East and West Coasts reported that it is more difficult to find good sales people in the West because "work attitudes are different in Southern California."

- The company with the lowest turnover rate among those interviewed reported a structured recruiting procedure:

  - Company recruiters locate candidates through ads and other means.

  - Candidates are given qualifying interviews.

  - Occasionally, managers recruit known personnel.

  - All sales candidates must be screened by all levels of upper divisional management.

- In general, the companies interviewed either were paying more attention to an improved recruiting function or were reconciled to getting what they could from competition.

- With regard to characteristics sought in a prospective salesman, the characteristic clearly most valued was "strong drive." See Exhibit V-3 for the relative value of other characteristics. This emphasis on strong drive obviously reflects the need for someone who can go out and generate revenues. Such a person also will tend to move to what he perceives to be better opportunity, thereby contributing to the turnover problem. Consider the person described by what managers considered to be the indispensable characteristic of a successful salesman:

EXHIBIT V-3

MANAGEMENT RATING OF SALESMEN CHARACTERISTICS

CHARACTERISTIC	RESPONDENT NUMBER 1	2	3	4	5	6	7	8	9	TOTAL
TECHNICAL COMPETENCE	3	4	5	3	3	3	2	3	2	28
ABILITY TO RELATE TO PEOPLE	5	5	3	5	5	3	2	5	4	37
STRONG DRIVE	5	5	4	5	4	5	5	5	5	43
ABILITY TO MAKE PRESENTATIONS	4	5	2	4	2	4	2	4	2	29

(5 = MOST IMPORTANT, 0 = UNIMPORTANT)

OTHER CHARACTERISTICS MENTIONED:

A GOOD PROBLEM SOLVER

- "Self motivation."

- "Drive - wants money."

- "Mature, aggressive."

- "Eagerness."

- "Desire to succeed financially and personally."

- "Driven by ambition." (Mentioned twice)

- Only once was a different kind of answer given, and it was "must be people oriented." Clearly, majority opinion is in favor of the independent performer.

C. THE RANGE OF TRAINING PROGRAMS

- Of eleven companies interviewed, one had no training program and another had one of six month's duration, with others falling in between (see Exhibit V-4). Most programs involved some headquarters training with the majority of the training taking place at the branch level.

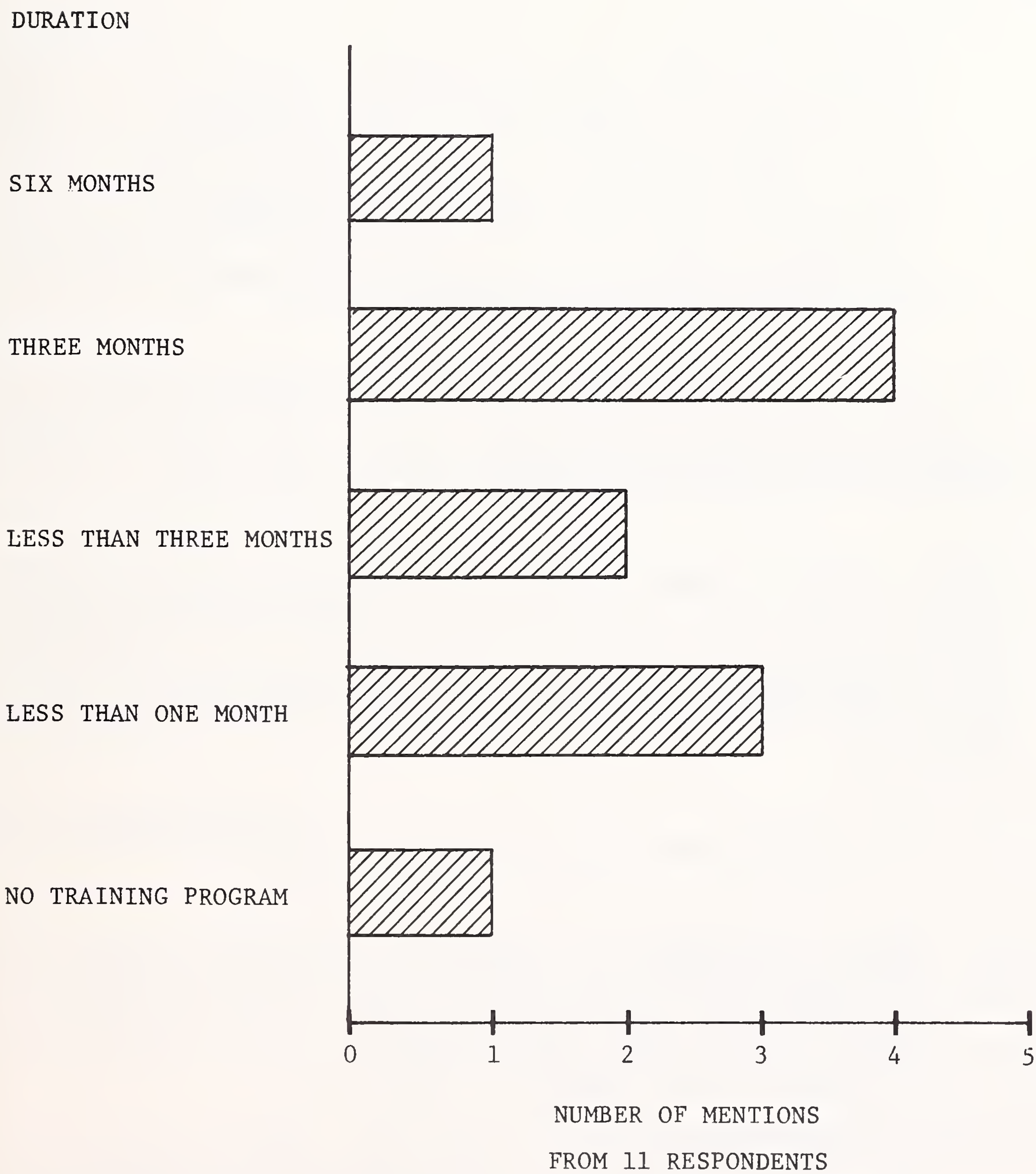
- Training programs typically are a combination of sales techniques, and product knowledge. Combinations included:

  - Three interrelated courses:

    - Sales techniques.
    - Product knowledge.
    - Advanced product and marketing concepts.

EXHIBIT V-4

DURATION OF SALES TRAINING PROGRAMS



- One month of branch orientation followed by three weeks of school at headquarters. Upon returning to the branch, the trainee participates in available applications and marketing classes. This program was felt to be inadequate by the V.P. ofMarketing and he suggested expanding it. By starting with people just out of school and investing heavily in training he was targeting for higher loyalty.

- Three months in the field and three months at headquarters. The focus is primarily on selling rather than products. The final week is a sales school patterned after IBM with competitive points given for performance. This company had a relatively low turnover, 25%, and was targeting for a much lower rate. The heavy training investment was considered to be one tool for lowering turnover since the program is a major source of entry into the sales force.

- The smallest company interviewed in terms of RCS revenues was moving from an informal, to a more formal training program. They had just named a "Manager of Training and Development."

- Another company of medium size in terms of RCS revenues had just appointed a training manager after trying a "stop and go" program of 2-4 weeks duration which had produced results "close to nil." The company was installing a program using video tapes with good early results. Under this program new hires are given:

  - Two weeks of product training at the district level.

  - One to two days per week of video tapes for 13 weeks on subjects such as closing a sale and making telephone calls. The tapes are followed by role playing. (The video tapes are supplied by a consulting organization and are circulated from district to district.)

  - Three days at headquarters for orientation including meetings with the company's top management.

- Although the trend in some companies is clearly toward heavier investment in training, over half of the companies interviewed planned to stay with their current minimum level of training activity.

- The degree of training was reflected in salesmens' attitudes toward the training. Comments from salesmen who had the shorter training courses included:

  - "Inadequate - felt forced into sales."

  - "On a scale of 0-5, would give it a 2."

  - "The training was sketchy and included only product training."

- Those who had longer training periods commented:

  - "The corporate training was good, although the branch level training was uneven."

  - "Very satisfied."

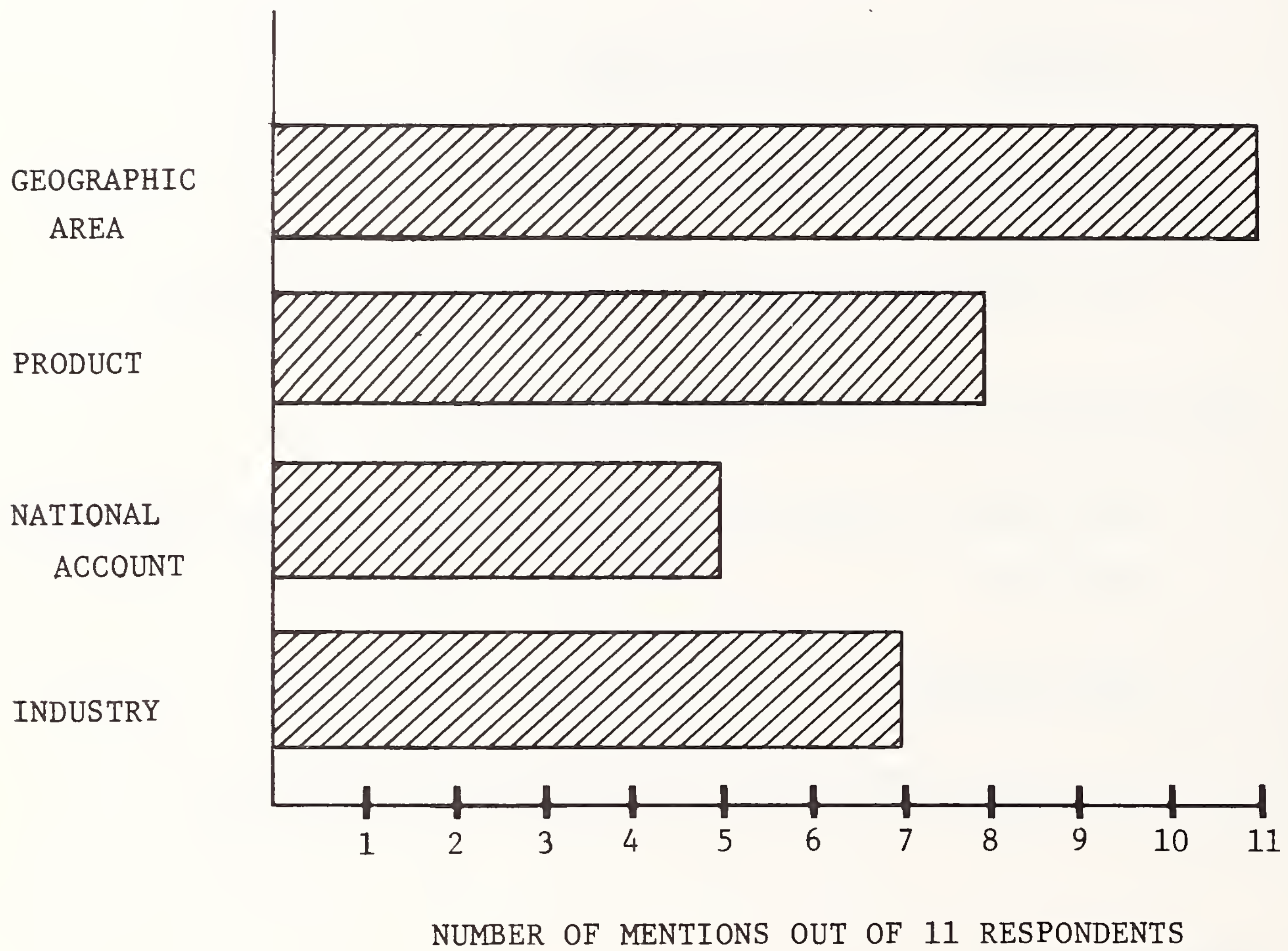
  - "Very, very good training on the technical and sales sides."

D. ORGANIZATION

- Reflecting increasing complexities of products and markets, marketing organization is also becoming more complex. Of 11 companies interviewed, all were primarily organized geographically. Other overlays, however, are coming into being, including product marketing, industry marketing, and national account marketing. See Exhibit V-5 for the response profile. Types of sub-organizations mentioned included:

EXHIBIT V-5

ORGANIZATION FREQUENCY BY GEOGRAPHIC AREA, PRODUCT, NATIONAL ACCOUNT AND/OR INDUSTRY



NOTE: Some respondents indicated multiple organizations.

- Product marketing - bond management portfolio, hospital systems.

- Industry marketing - banking, telephone, federal government, CPAs.

- National accounts - telephone companies.

- At this point in time, organizational issues are considered unimportant, with the branch manager having a good deal of independence concerning how he structures his personnel.

E. SALESMENS' ATTITUDES AND JOB RETENTION

- The salesmen interviewed for this study were typically among the more experienced in each company. Also, they tended to be successful in terms of quota attainment. They were selected because they had worked under the marketing plan for several years and were at a point where they had some career alternatives to consider. A profile of their responses is presented in Exhibit V-6. The most valued quality of the 10 included in the Exhibit are commission, career growth, product quality, and company image. Simplicity of the plan, a quality valued by some managements, was not considered important by salesmen.

- Salesmen responses are quoted in the following sections to provide a flavor for the range of attitudes among salesmen in typical companies.

1. The Most Effective Motivator

. "Money."

. "Money is secondary. I want to participate in a team effort on a local basis. I will do more than my share. I want recognition."

EXHIBIT V-6

PROFILE OF SALESMEN'S ATTITUDES REGARDING JOB SATISFACTION

	RATING BY RESPONDENTS										
JOB ELEMENT	1	2	3	4	5	6	7	8	9	10	TOTAL
BASE SALARY	4	5	2	5	5	4	4	5	3	3	40
COMMISSION	5	5	5	5	5	5	5	5	5	5	50
SECURITY	5	3	3	4	5	5	4	3	3	4	39
CAREER GROWTH	5	5	5	5	5	5	4	3	5	5	47
BONUS	3	3	5	4	5	4	4	5	3	4	40
WORKING CONDITIONS	3	3	5	1	5	4	4	5	3	4	37
PRODUCT QUALITY	5	3	4	4	5	5	5	5	5	5	46
COMPANY IMAGE	5	2	5	4	5	5	5	5	5	5	46
SPECIAL RECOGNITIONS (e.g., "100% CLUB")	4	4	3	5	5	4	1	3	3	5	37
SIMPLICITY OF THE PLAN	5	3	2	0	4	3	4	2	2	4	29

(5 = HIGH, 0 = UNIMPORTANT)

- "Group, team spirit, then cash, then the 100% Club. It's important to be around successful people. Then you'll be successful."

- "First dollars, then career growth."

- "Personal involvement. I want my manager to be involved with me as a person. I want encouragement during the peaks and valleys of the selling cycle, not "rah-rah" meetings."

- "At first it was money - Once I reached $30,000 it became a question of career potential."

- "An effective compensation plan coupled with respect from customers, management and peers."

- "I want to accomplish something including earning money. It's important to me to have a premier product."

- "Money, no doubt about it. Then security and a career."

- "A good commission plan."

2. The Greatest Hindrance To Higher Sales

   - "Lack of technical support."

   - "Improperly executed marketing programs, for example, a product is introduced without adequate documentation, advertising, education."

   - "Lack of involvement by management. I want to feel that I am a valuable asset to the company."

- "Inefficient management of time by the salesman - not product or price."

- "Being bogged down with problem situations and paperwork."

- "Poor quality product."

- "Lack of products."

- "Not enough assistance with leads into the marketplace."

- "Lack of support and training."

- "My company isn't known in the marketplace."

- "Lack of hardware to compete with micros, minis."

3. Degree of Participation In The Quota Setting Process

- "Inadequate - the quota comes out by a secret process."

- "Inadequate - I would like to negotiate the quota and test it against realistic ranges. Now the process is more style than substance."

- "Adequate because I'm a senior person and understand how it works. New people have less voice."

- "Inadequate. The quota comes down from the top and there should be some input from the field."

- "Inadequate. The salesman should be respected by management. He should be able to have an input to his quota."

- "Adequate. The quotas are worked out with the district manager and there is a good dialogue."

- "Inadequate. I'm not asked and I'd like to be asked."

- "Inadequate, but I don't care - I have a reasonable quota."

- "More than adequate. Even though the quotas are higher than I would like, I have ways to appeal."

4. Products Emphasized, Products Avoided

- "I emphasize what can be supported, avoid what cannot."

- "I look for products which have a competitive advantage, avoid those which do not."

- "I like flexible products where I can use creativity. I avoid highly specialized products."

- "I emphasize high revenue, repeatable business, and avoid one time sales. I'm not concerned with profit but am with revenues."

- "I look for products which solve problems."

- "I sell financial products because financial departments have money. I avoid products which can easily go in-house. For example, those that are Fortran, COBOL-based.

5. Suggested Changes In Compensation Plans

- Although salesmen found fault with the way plans are implemented, for example the quota setting process, they felt the plans themselves were acceptable. The only suggested changes were in the direction of higher commission levels; this of course is related to the quota setting process. Salesmen universally liked working on a commission plan and having a chance to "break the bank."

6. Salesmen Career Objectives In One Year

- "Sales management" (after 4 years in sales).

- "Maximize personal revenue."

- "Become a branch manager."

- "Take an additional quota responsibility and move into management."

- "Be recognized as being successful."

- "Grow into a management position."

- "Haven't thought of it."

- "Keep selling for 2 years, then become a branch manager."

- "To achieve my assigned quota and increase my personal cash flow."

- "Be in charge of a district." (By a salesman who was the 1976 "Salesman of the Year.")

7. Salesmen Career Objectives In 5 Years, Total Career Objectives

- "Vice President, Marketing."

- "None. This is a transient type of business in terms of the industry, the products, and the people. Maybe the services industry is a temporary phenomenon. I don't see how it will evolve between hardware and software."

- "Become an independent consultant or a Vice President or President."

- "In marketing management with a leader in the field."

- "Haven't thought of it."

- "Stay in marketing."

- "This company has been too unstable to formulate long-range plans."

- "Area or region manager and eventually Vice President, Marketing. I don't want to be President."

8. Overall Attitudes And Conclusions

- As verbalized in the preceding sections, salesmen support the high incentive, high performance nature of the job. If anything, they want 50% and higher incentive levels. This attitude is partly a reflection of the fact that high performers were interviewed. Most significant, however, is the desire for a greater degree of personal involvement. One salesman verbalized the feeling as follows:

  "I am absolutely working for myself rather than for a company. I would rather have it the other way. Management overlooks the fact that they are working with people. Therein lies the problem."

- The building of career personnel lies in a combination of management actions:

  1. Better recruiting techniques to avoid the high rate of firings which currently exist - sometimes 20% and more of the sales force in a year.

  2. Larger investment in training to increase capability and resulting sales success, to build loyalty, and to increase the total supply of training salesmen necessary to sustain the industry growth.

  3. Greater involvement in some companies of salesmen in the quota setting process. There is a prevalent feeling that it is "impossible to have two good years in a row" because management applies a growth factor to the prior year's performance regardless of individual circumstances.

  4. Review of the personality types hired to include a balance of individualism and team capability aimed at building cohesiveness at the branch level.

VI KEY MARKETING COMPENSATION PARAMETERS

VI KEY MARKETING COMPENSATION PARAMETERS

A. STAFFING

- The ratios of salesmen to sales managers and salesmen to technical support personnel were compared. The company with the highest ratio (5.5:1) of salesmen to sales managers (and theoretically, therefore, the least management support) had the highest average revenues per salesman ($650,000 per year, a level shared by 3 of 11 respondents). The other two companies reporting $650,000 per salesman in average revenues had ratios of salesmen to sales managers in the more typical 3.0-4.0 range. Sixty-four percent of the companies responding were in this range, as shown in Exhibit VI-1. The company having the lowest ratio of salesmen to sales managers (1.8:1) had respectable average revenues per salesman of $530,000 versus the average of $450,000 for the companies responding. The ratio of salesmen to sales managers is clearly not a dominant factor in determining salesman productivity.

- Similarly, the ratio of salesmen to technical support personnel is not a determinant of salesman productivity. Ninety-one percent of the respondents had ratios between 0.7:1 and 1.0:1 (see Exhibit VI-2), and yet the range of salesman productivity varied from $240,000 to $650,000 per year. One company had a ratio of sales to technical support personnel outside of the range (they were at 2.0 salesmen per technical support). The salesman interviewed from this company responded as follows concerning a suggested change to the marketing plan: "Have the company run leaner. Give salesmen

EXHIBIT VI-1

RATIO OF SALESMEN TO SALES MANAGERS

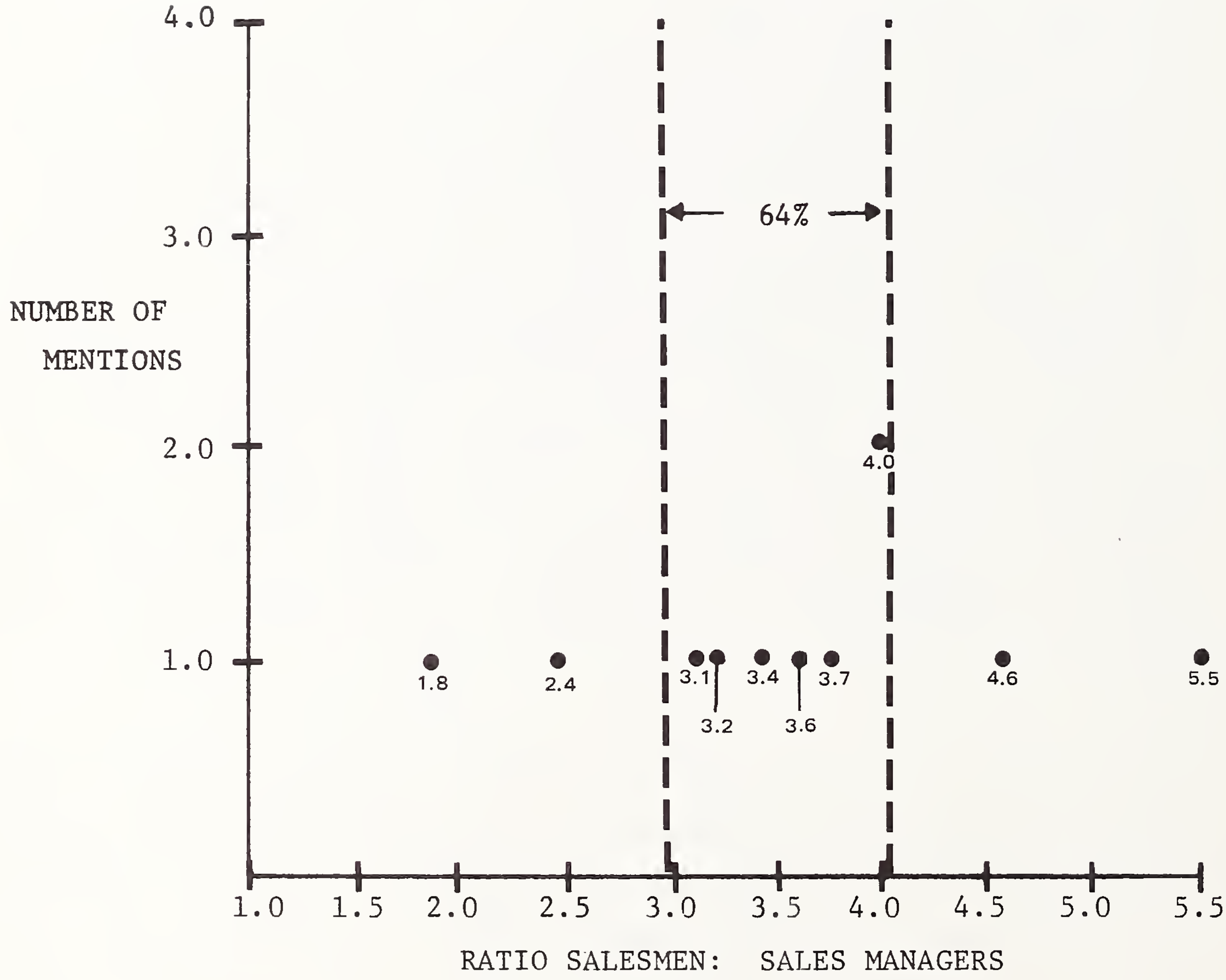
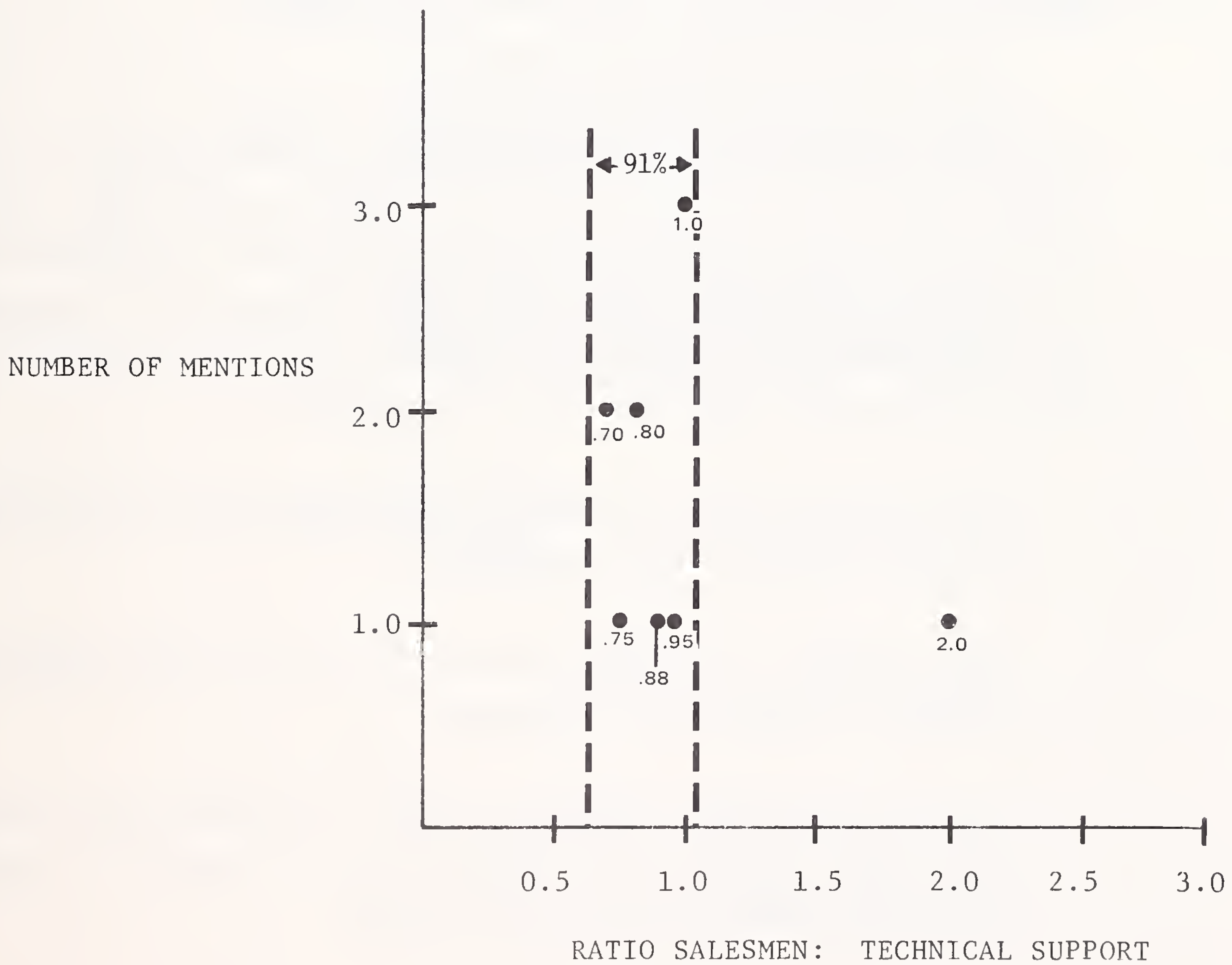


EXHIBIT VI-2

RATIO OF SALESMEN TO

TECHNICAL SUPPORT PERSONNEL



more accounts. Have 2 people in a territory vs. 4." If management were to implement this suggestion, this company would also fall into the same narrow range as the other 10 respondents.

- A parameter which held generally true is that larger companies tend to have higher annual sales per salesman. This is undoubtedly due largely to a higher base of existing business. Also larger companies tend to have a higher content of batch or time sales in their product mix and these carry a lower profit margin. Referring to the profitability figures shown in Chapter III of this report, smaller companies are able to generate good profits in spite of significantly lower revenue production per salesman.

B. MARKETING AND INCENTIVE COMPENSATION COSTS

- Marketing costs as a percent of RCS revenues approximate 30% for the companies interviewed and range from a low of 18% to a high of 45%. A strict definition of "marketing costs" was not practical because of variations in the way different companies account for various costs. Eight of the 11 companies responding had marketing costs in the 21-40% (see Exhibit VI-3) range with the following explanations applying to some of the responses:

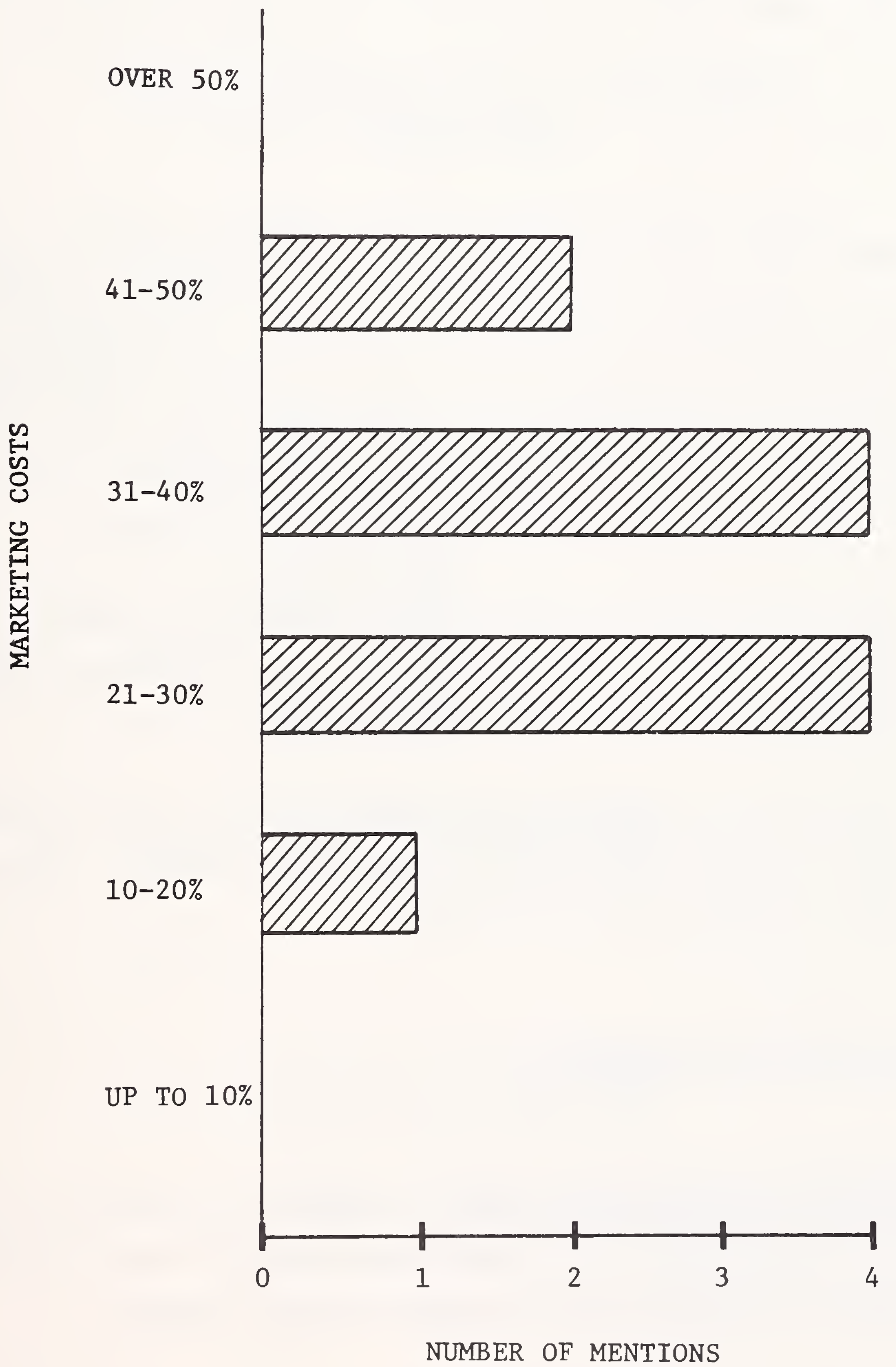
  - "Twenty-five to thirty percent - Do not include overhead costs related to market research, some advertising."

  - "Forty percent - Of this 30% is direct field cost and 15% is marketing overhead. This high cost is a problem."

  - "Twenty-eight percent - Includes all costs involving the sales function. Advertising, personnel, and financial are in G and A. Product development is also in G and A and totals 3%."

EXHIBIT VI-3

TOTAL MARKETING COSTS AS A PERCENT OF RCS REVENUES



- "Forty percent - Includes advertising."

- "Forty percent - Of this the people in the field account for 25%. Other costs include in-house product people at the corporate level, royalty expense, documentation, brochures, software development, etc., totaling another 15%. We are basically a marketing organization.

- Thirty-two percent - excluding product development."

- Incentive compensation as a percent of RCS revenues varies from a low of 3% to a high of 8%. Six of the respondents were between 3% and 4%. The frequency of response by percentage range is shown in Exhibit VI-4. The high degree of similarity of results is surprising in view of the great variety of marketing plans as described earlier. To a great extent this reflects the effectiveness of incentive compensation since high levels of compensation increase revenue performance, thereby reducing the percentage.

  - The company with by far the highest percentage (8%) was the one company without a quota system in its compensation plan. The company plans to add a quota system in 1978.

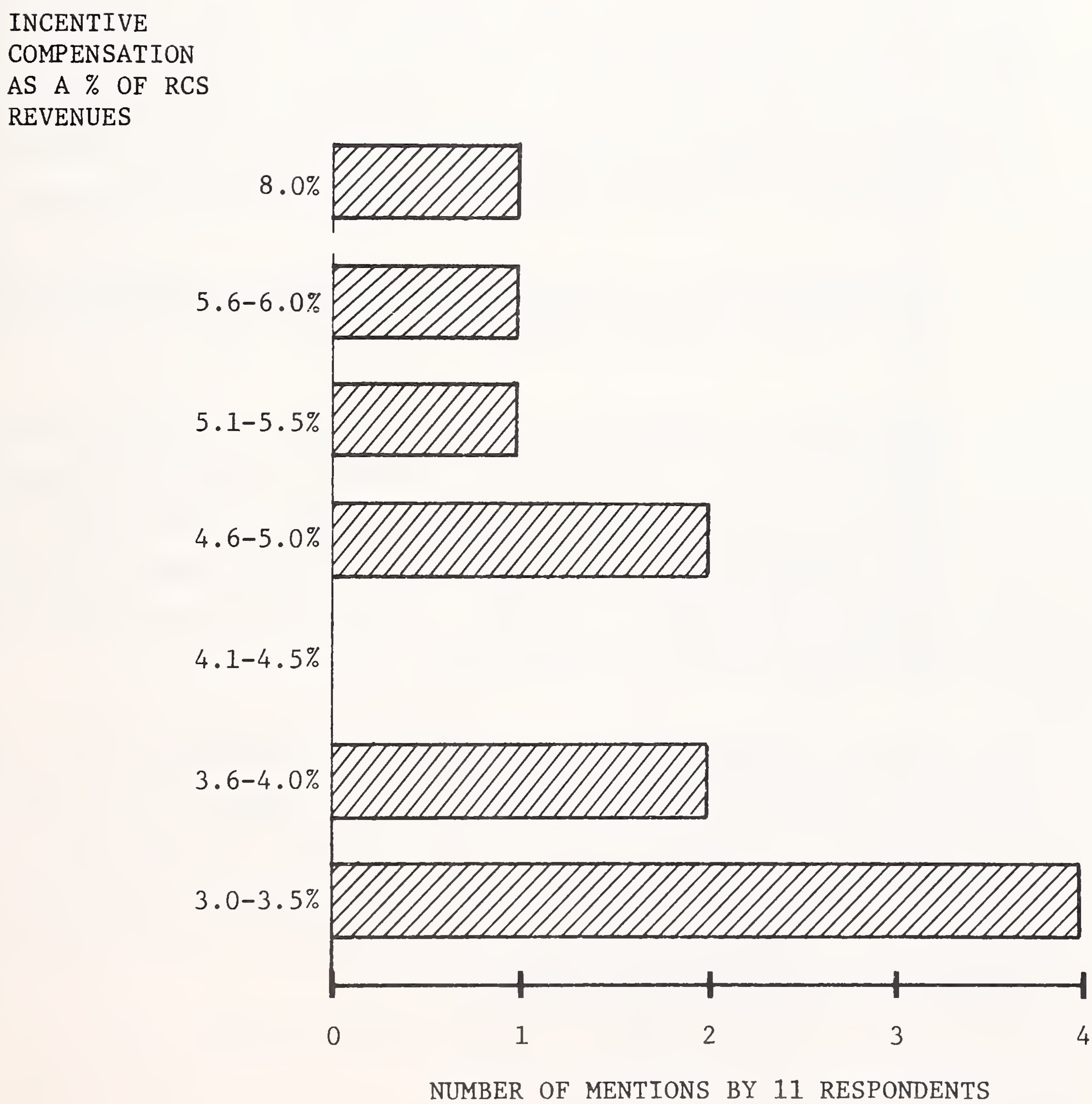
  - The company reporting 6% intentionally pays a high incentive in an effort to provide motivation for above average growth. The company feels the high incentive is successful.

C. PRODUCTIVITY OF SALESMEN

- RCS revenues per salesman per year vary widely from a minimum of 0 to a maximum of $3.0 million. The high values typically were from salesmen responsible for federal government or other very large accounts.

EXHIBIT VI-4

INCENTIVE COMPENSATION AS A PERCENT OF RCS REVENUES



- In a company with average sales of $280,000 per salesman, 80% of salesmen averaged between $200,000 and $400,000 per year.

- In a company with average sales of $400,000 per salesman, 80% of salesmen averaged between $300,000 and $500,000 per year. This indicates that even at different levels of average sales, the great majority of salesmen cluster within $100,000 per year of the average.

- Exhibit VI-5 charts the revenue range per company and the average per salesman. It follows from the relative uniformity of percent incentive commission per dollar of RCS revenues discussed earlier that those companies paying higher average percentage of commission will have higher revenues per salesman. This holds true, in that the two companies paying 60% commission as a percent of average salesman compensation (see Exhibit VI-6) are two of the three companies averaging $650,000 per year per salesman in revenues.

  - The concentration of commissions at 40% reflects the popularity of marketing plans targeting a 60/40 salary/incentive split.

  - The company averaging 20% commission is also the company with the lowest revenues per salesman. The relationship of revenue per salesman and percentage commission is shown graphically in Exhibit VI-7. The result is undoubtedly a combination of the fact that money motivates, hence the high performers, and that a company behind quota doesn't pay commission, hence the low performers.

- The relationship between total marketing costs and average revenues per salesman is almost random as shown in Exhibit VI-8. Apparently, the makeup of marketing costs differs to such an extent between companies that the effect on a single parameter such as revenue per salesman loses meaning. Most companies recognize this and are attempting to reduce or hold the line on marketing costs as a percent of revenues.

EXHIBIT VI-5

RCS REVENUES PER SALESMAN

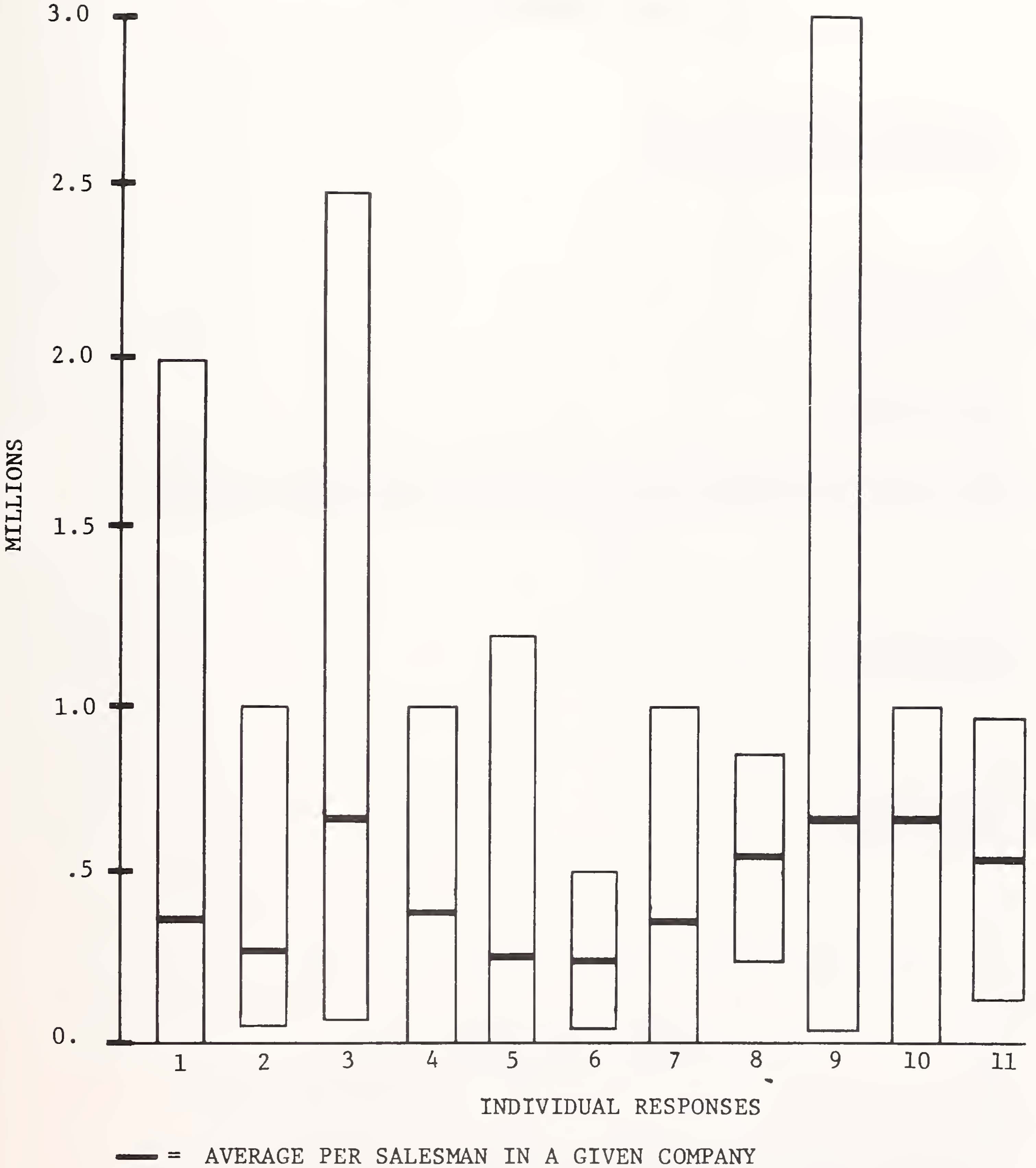


EXHIBIT VI-6

COMMISSION AS A PERCENT OF TOTAL AVERAGE SALESMAN COMPENSATION

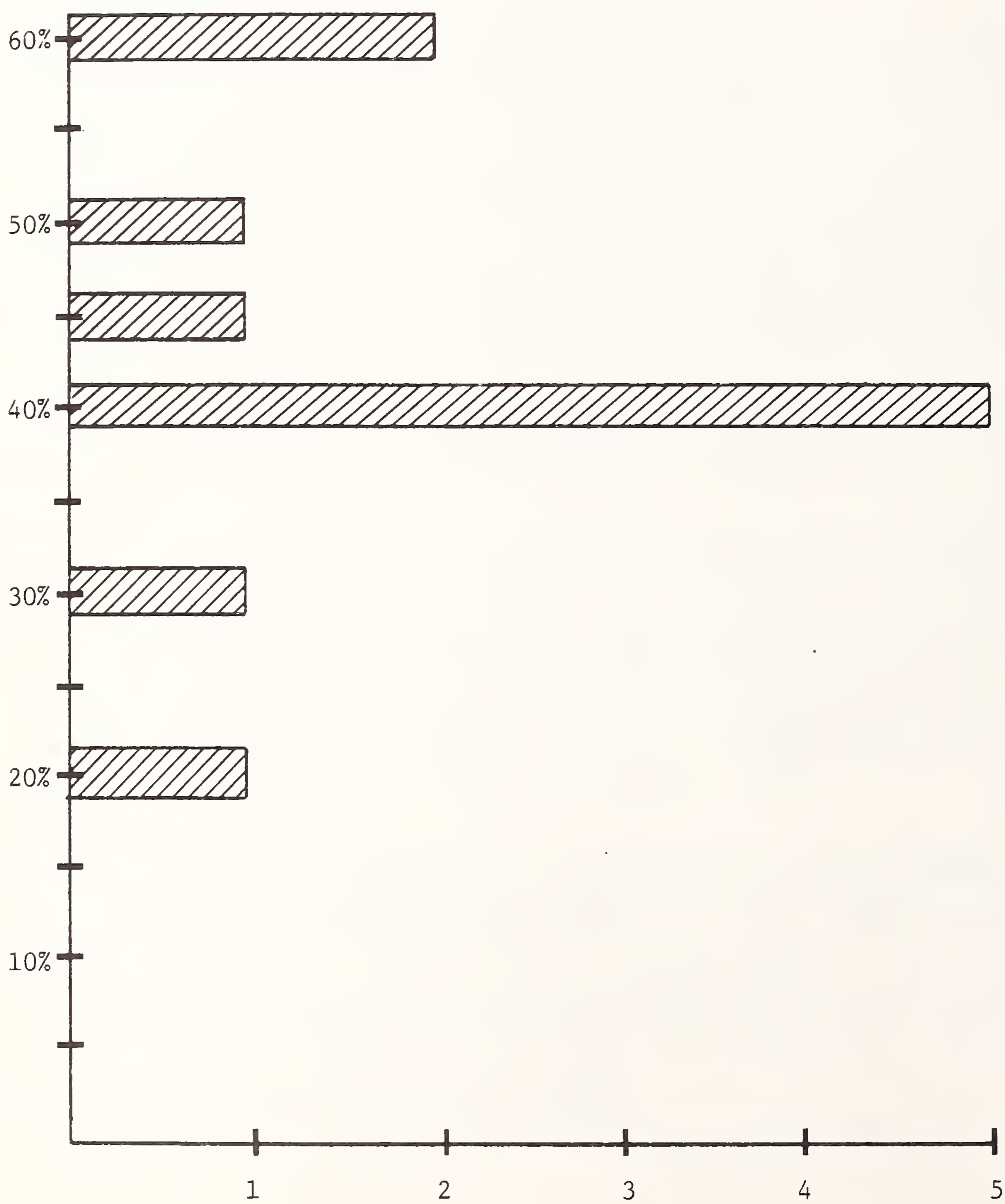


EXHIBIT VI-7

AVERAGE REVENUE PER SALESMAN VS.

AVERAGE PERCENT COMMISSION PER SALESMAN

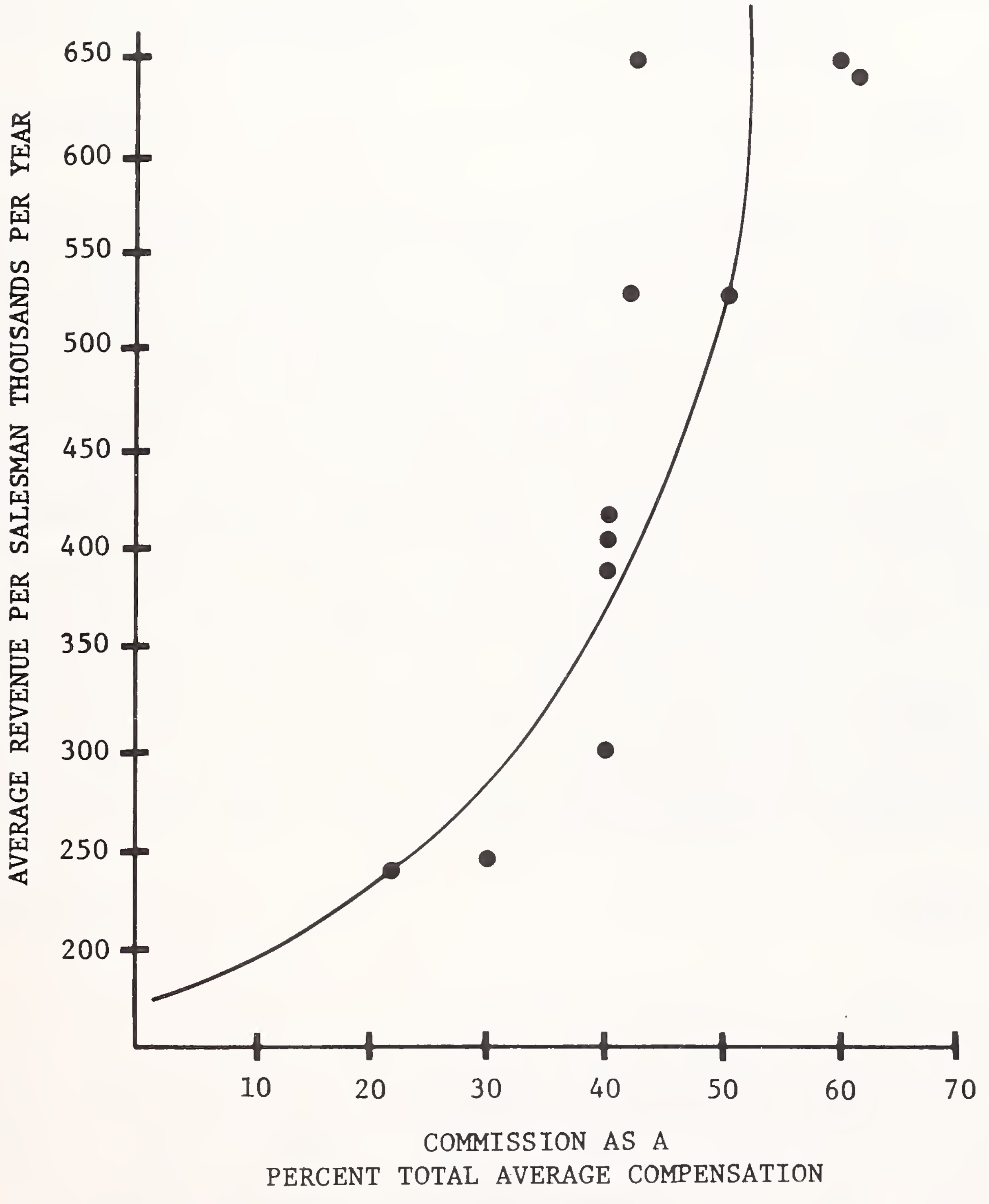
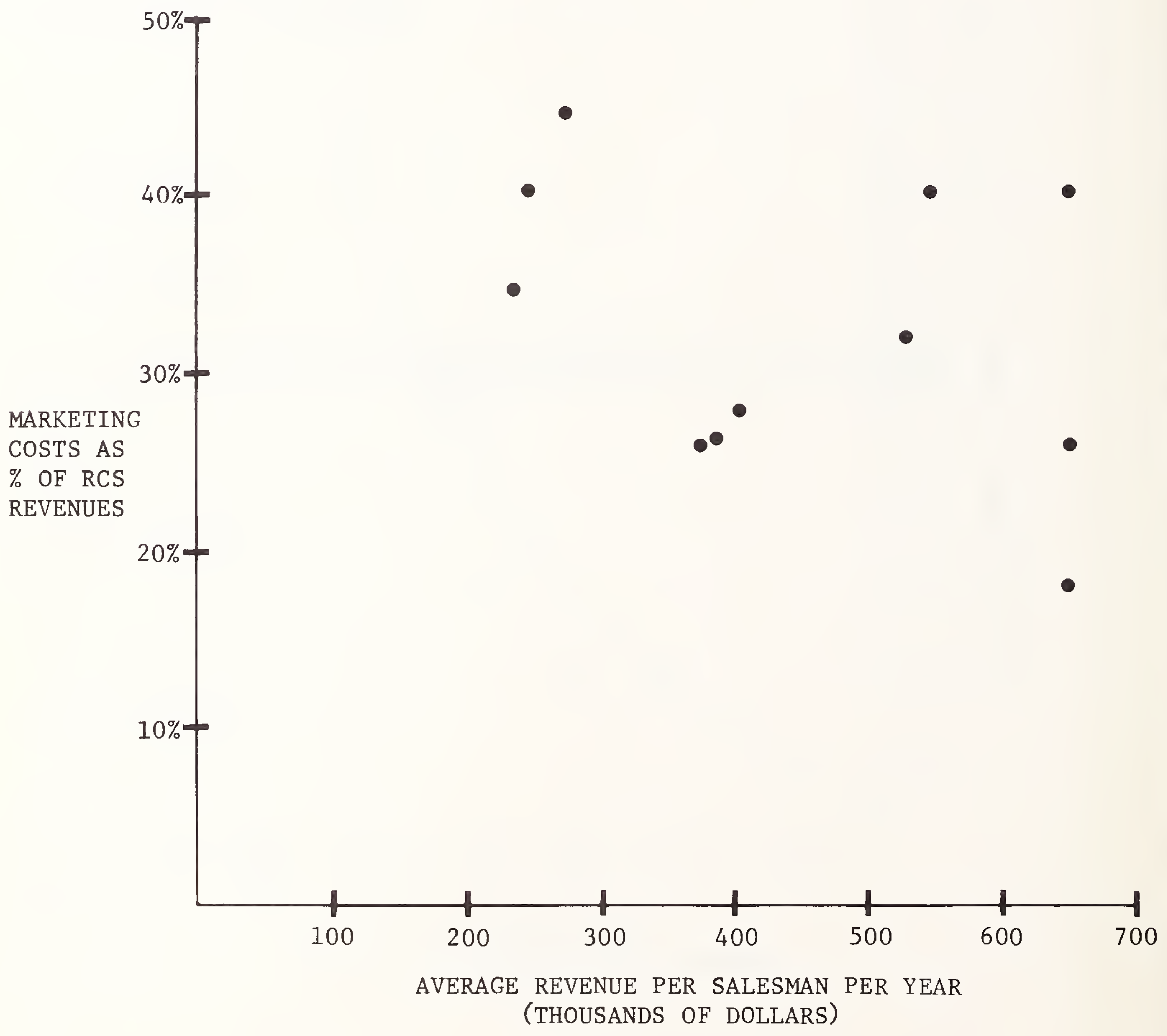


EXHIBIT VI-8

AVERAGE REVENUE PER SALESMAN VS. MARKETING COSTS AS A PERCENT OF RCS REVENUES



D. COMPARISON OF INCOME RANGES

- Income ranges vary widely among companies and also vary relative to the relationships of incomes of sales managers, salesmen and technical support personnel. This was discussed in Chapter II and was shown graphically in Exhibit II-2. In the following section, the compensation ranges of managers, salesmen, and support personnel will be discussed separately.

1. MANAGERS

- Managers' incomes vary from a narrow range ($25-35,000/yr.) to a wide range ($27-85,000/yr.) among the responding companies. In ten of the eleven companies, the top salesman earned more than the top sales manager. The one exception viewed managers as "a prime resource." Also, this company had the highest number of managers relative to salesmen, indicating that the managers have time to get involved in individual sales situations. The sales managers' compensation plans,as described earlier in Exhibit IV-4, are less leveraged than salesmens' plans, resulting in generally a narrower range of income. Since many small branches do not have both a sales manager and a branch manager, incomes often apply to both titles. Where sales managers, branch managers and district managers exist, the branch manager and district manager typically have higher incomes reflecting the established management career path. The range of sales manager incomes is presented graphically in Exhibit VI-9.

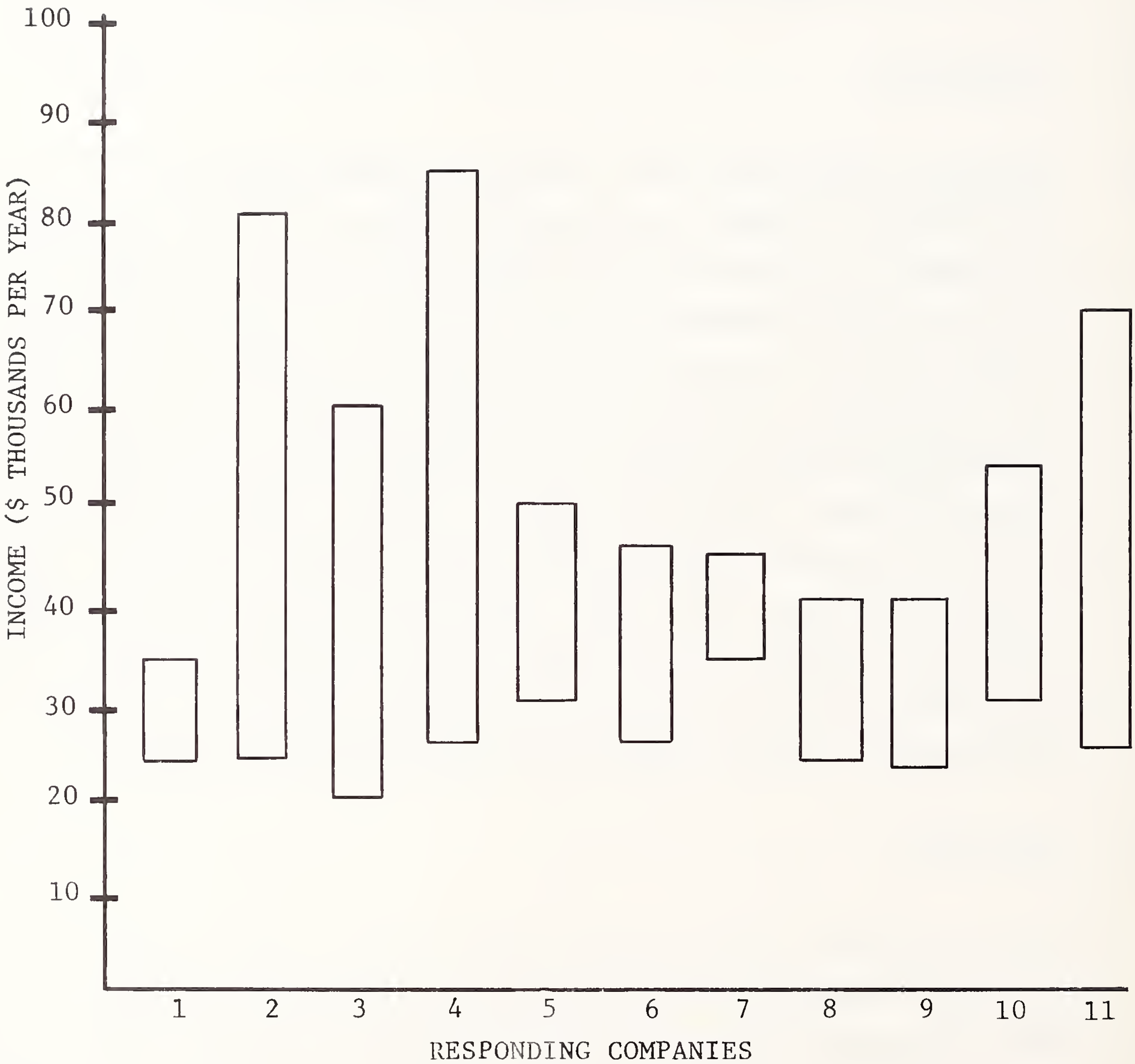
2. SALESMEN

- The base income level of salesmen fell into two groups with 9 of the 11 respondents reporting the low income betwen $16-18,000 per year. The two other respondents reported $24,000 and $25,000 respectively. The average annual revenues generated per salesman in these two companies was $550,000 and $650,000 respectively, also at the high end of the range. This indicates success in hiring at a higher base level and getting higher performance; neither company had an extensive training program in place and was not, therefore, hiring junior people.

EXHIBIT VI-9

COMPARISON OF ANNUAL INCOME RANGES

FOR SALES MANAGERS



- The median and average salesman's annual compensation was not available from most respondents. In the case of a company with one of the widest ranges, the median was $30-35,000 per year with an average slightly higher because of a few very high incomes. Another company with a narrower range reported an average salesman income of $30,000 per year.

- The top income level for salesmen varied widely, from $40,000 per year to $100,000 per year. Two companies which had imposed limits have since removed them. The top incomes in the $40,000 range therefore result from incentive plans which do not have the high multipliers existent in some plans, from more conservative quota structures and from less aggressive short-term marketing practices. A profile of annual income ranges for salesmen is presented in Exhibit VI-10.

3. SUPPORT PERSONNEL

- The narrowest range of incomes reported is for technical support personnel. With one exception, the top income range is $25,000-32,000. This exception is $37,000 per year and is in a company which creates a pool of incentive based on branch revenue. See Exhibit VI-11 for a graphic comparison of income ranges for support personnel. Refer to Exhibit IV-5 for a summary of compensation plans.

- Technical support personnel universally were reported to reject plans with high incentive. In companies with some incentive (55% of those reporting) the reasons primarily were to help protect current business and to build a cooperative spirit at the branch level.

- Of the three categories of plans by far the greatest management attention is spent on the salesman compensation plans, as evidenced by the complexity and variety described in previous sections. Management clearly feels that the greatest leverage is at the salesman level.

EXHIBIT VI-10

COMPARISON OF ANNUAL INCOME RANGES

FOR SALESMEN

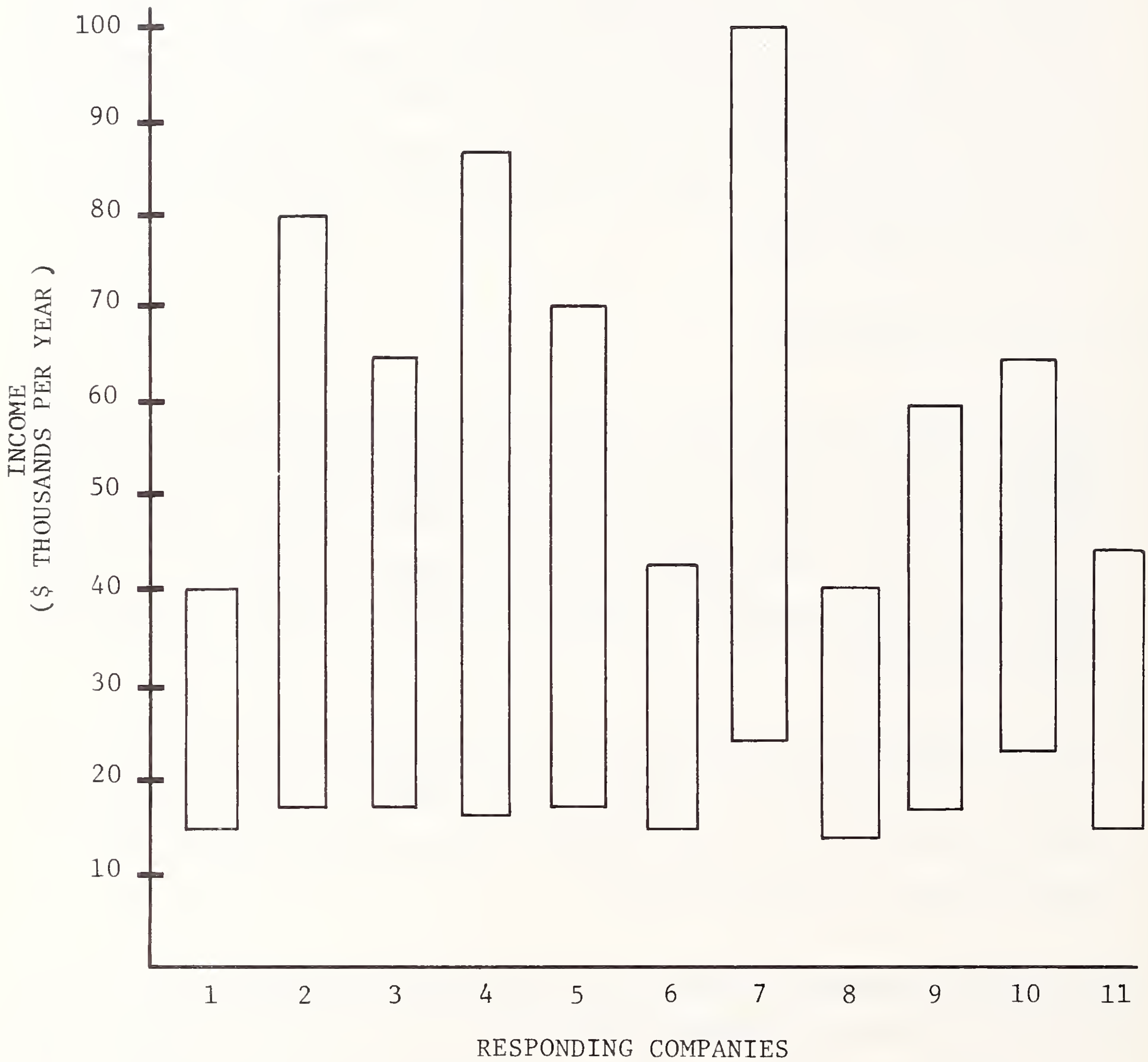
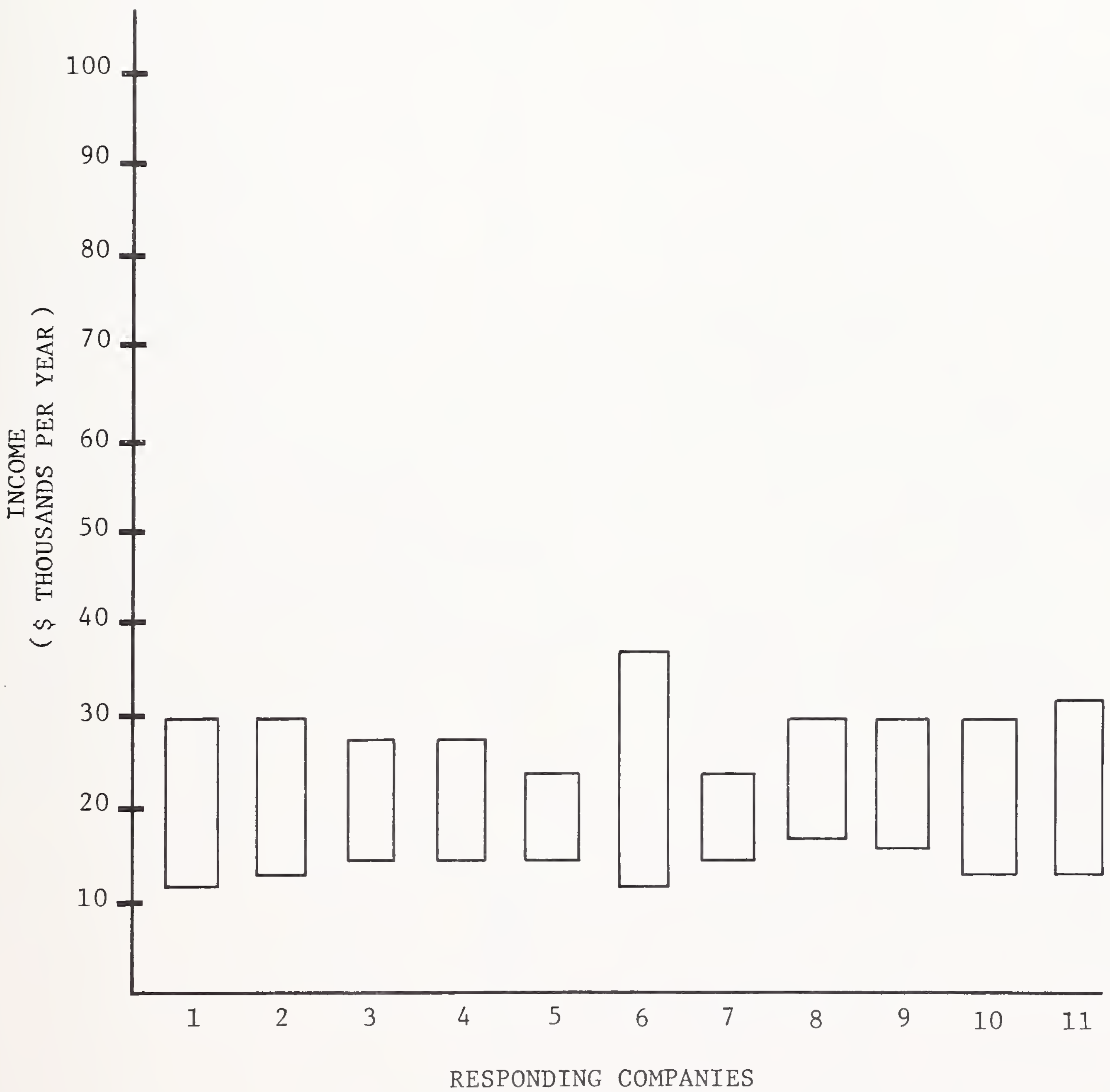


EXHIBIT VI-11

COMPARISON OF ANNUAL INCOME RANGES
FOR SUPPORT PERSONNEL



VII OVERALL ANALYSIS

VII OVERALL ANALYSIS

A. COST TRENDS

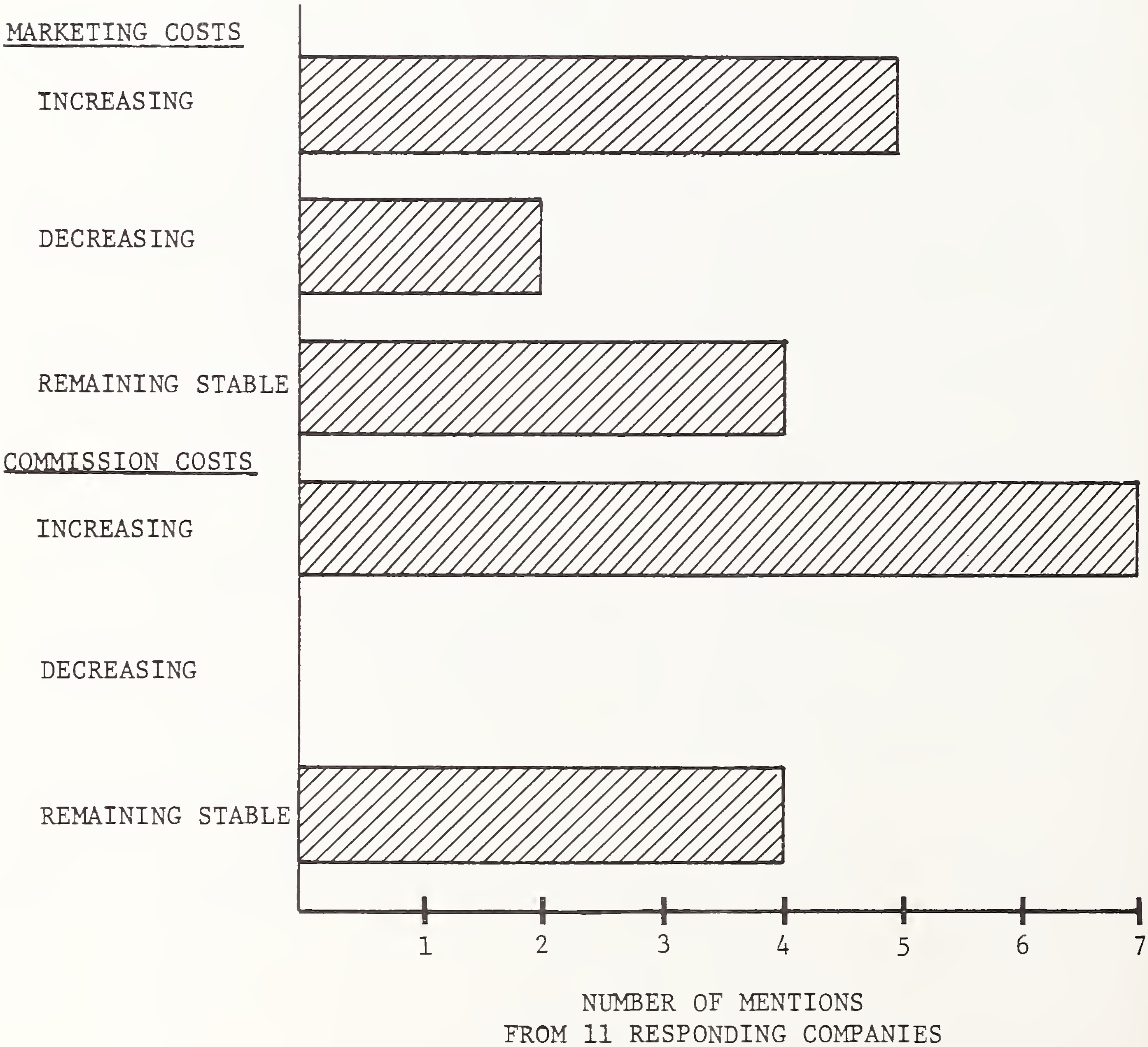
- The orientation of marketing management in the RCS industry is to increase revenues. The dominant philosophy is that the market is growing at 20%+ per year and that "we are going to get our share." Because of the high profit potential once fixed costs are covered, more attention is paid to growth than to cost control. When asked if marketing costs, as a percent of RCS revenues, would increase, decrease, or remain stable, most felt they would increase. Respondents are charted in Exhibit VII-1. Those seeing a percentage decrease based their conclusion on the assumption that while marketing costs would increase, revenues would increase even faster.

- With regard to commission costs, no company saw a percentage decrease, with most expecting an increase. Responses are also charted on Exhibit VII-1. This increased use of commission as an incentive is consistent with the relationship between high commissions and high revenues per salesman discussed in the previous chapter.

- The extent to which higher commission costs create profits for the industry depends on where the new business comes from and this will be discussed later in this chapter.

EXHIBIT VII-1

TRENDS IN MARKETING, COMMISSION COSTS RELATIVE TO RCS REVENUES



B. WHAT WORKS AND WHAT DOESN'T

- Although opinions vary concerning what works and what doesn't work in marketing compensation plans, some consensus did come out of the interviews conducted during this study.

    - On balance management is more pleased with the plans than are salesmen, as charted in Exhibit VII-2.

    - Because of the high mobility of people in the industry, many opinions were formed at companies other than the respondent's current employer.

    - There were several ex-IBM, ex-Burroughs, etc., employees as well as several who had worked for services companies larger than their current employer.

    - Since the interview profile included half of the top 20 RCS companies, this consensus reflects the major companies in the industry.

- The following features work:

    - Quota systems if the quotas are realistic.

    - "100% Clubs."

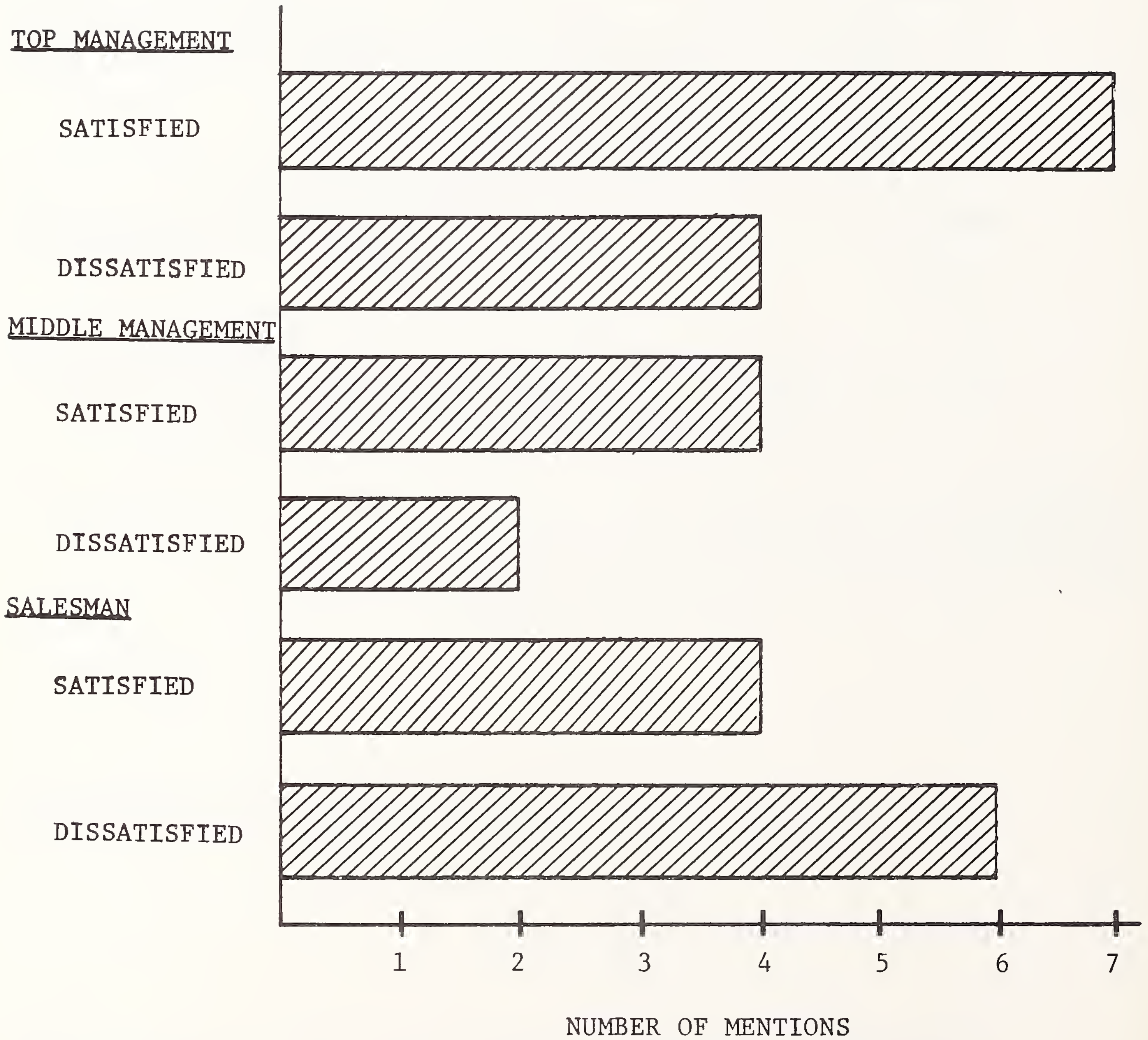
    - Parallel incentive plans for managers and salesmen so that they have parallel objectives.

    - New account bonuses, if large enough.

    - Product promotions for short-term gains, particularly on new products; otherwise they are not effective.

EXHIBIT VII-2

LEVEL OF MANAGEMENT AND SALESMAN
SATISFACTION WITH CURRENT PLANS



- Accelerators for over-quota performance.

- Involvement of (at least) middle management in the quota setting process.

- Using professional employment agencies in the recruiting process, including establishment of a corporate search function.

- Training in sales techniques, including use of video courses.

- Formalizing the training functions by appointing a "Manager of Training" or equivalent.

- Industry specialization in branches which have truly specialized industry potential.

• The following features don't work:

  - Quotas for technical support personnel.

  - Commissions on signed contracts instead of actual billings. Too often the contract commitments are not met.

  - Plans without salesmen quotas. The salesman can relax on established business.

  - Setting quotas based heavily on industry growth or past company growth without being able to verify that the company can obtain that growth in the coming year with available product and people resources.

  - Sales contests. It is difficult to differentiate a reward for effort versus one for luck.

  - Hiring salesmen from competition for a sales (vs. management) position. "He wouldn't leave if he were doing well."

- Newspaper ads as a recruiting source - 9 out of 10 applicants are unacceptable..

- Placing limits on salesman earnings. This leads to salesman dissatisfaction and to difficulty in recruiting.

- Lack of personal involvement between salesmen and management.

C. RECENT AND PLANNED CHANGES

- In most companies marketing compensation plans are in a constant state of flux. Managements experiment and modify as they search for a mix which will:

  - Provide maximum incentive for sales growth while protecting current business.

  - Reduce overall costs.

  - Promote emphasis on specific segments such as new business or specialized products.

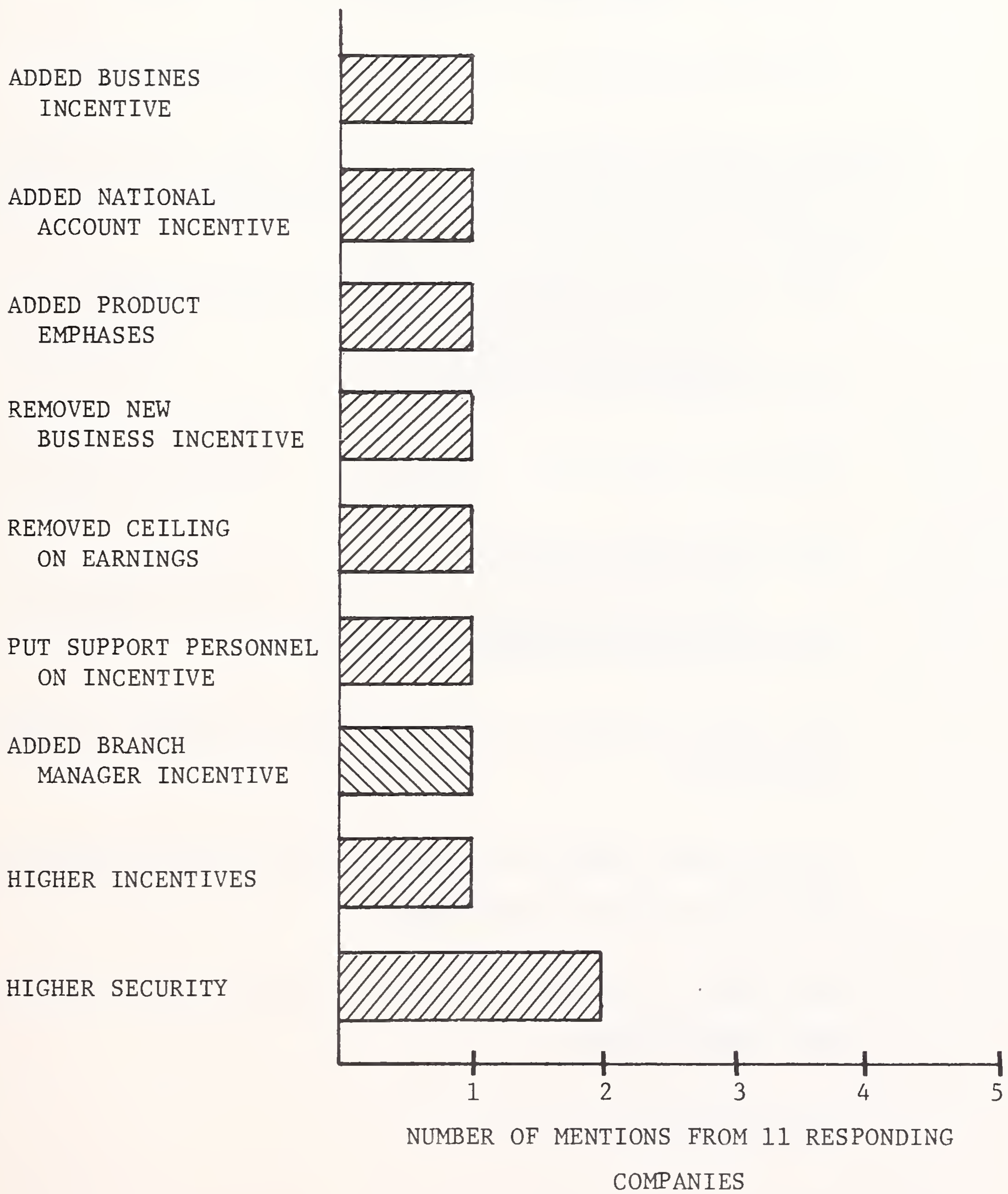
  - Enhance recruiting and personnel retention.

- Across the companies interviewed, examples were found of individual managements moving in opposite directions. For example, while several companies were emphasizing new business, one was de-emphasizing new business. Another was de-emphasizing quotas while several were adding emphasis to quotas. The process is one of correcting over-emphasis, adding features, and dealing with changes in market, product and personnel.

- Frequency of responses to the question, "What have you changed in the past 1-2 years?" are shown in Exhibit VII-3. Management comments included:

EXHIBIT VII-3

CHANGES IN COMPENSATION PLANS IN PAST TWO YEARS



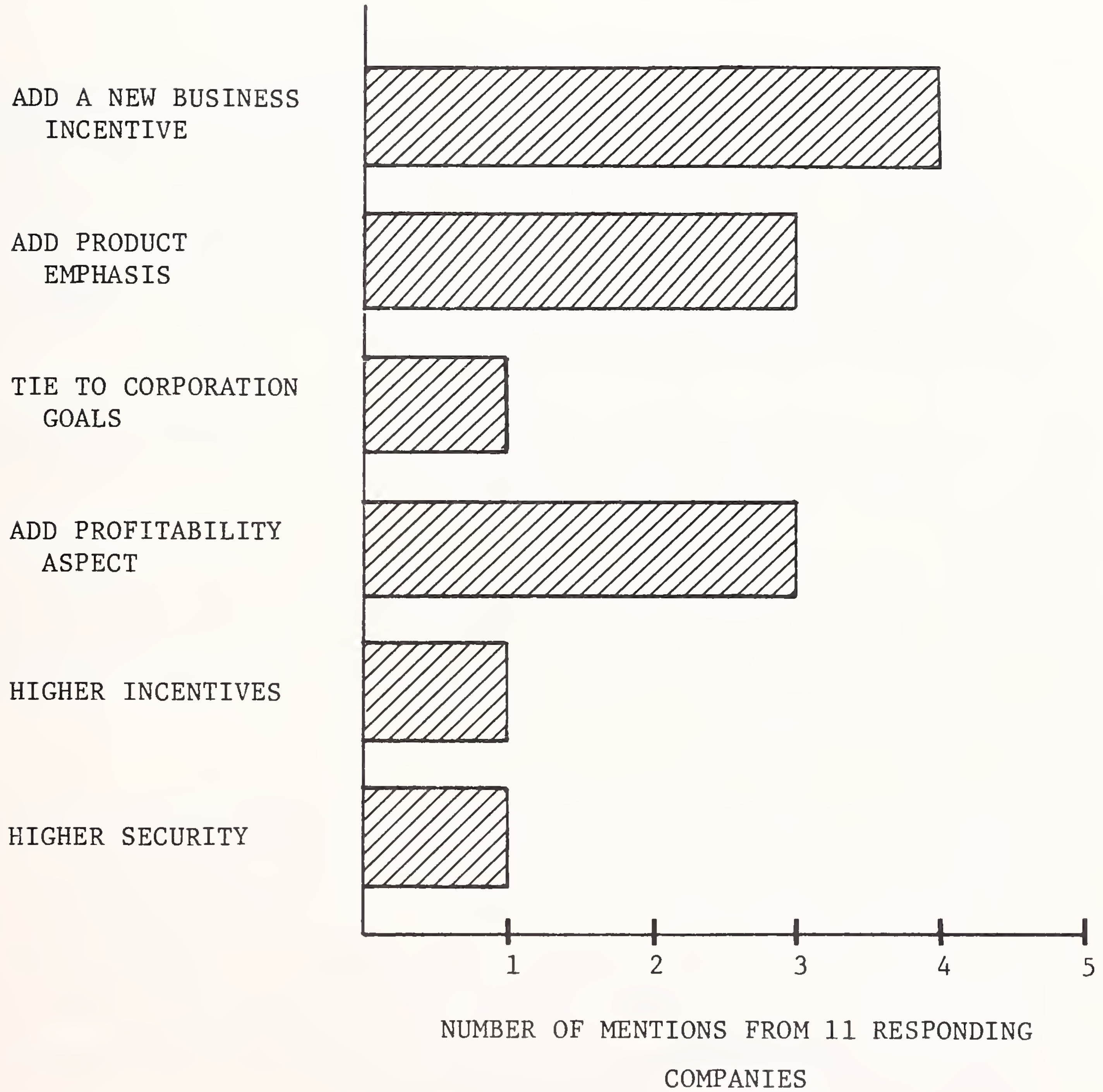
- "Nothing."
- "Introduced an accelerator for performance over quota."
- "Emphasized retention versus new business."
- "Increased dialogue with the salesmen relative to quota."
- "Put systems engineers on an incentive to stabilize business."

- Frequency of specific responses to the question, "What will you change in the next 1-2 years?" are shown in Exhibit VII-4. Management comments included:
  - "Add new account bonuses for managers and support people."
  - "Increase the amount of incentive."
  - "Add product emphasis."
  - "Add a profitability aspect."
  - "Reduce the commission on existing business."
  - "No serious thoughts on major changes - expect to have minor refinements."
  - "Thinking about adding product commissions tied to corporate goals, profit objectives and strategic plans."
  - "Add specific incentives for specialty products because they tend to stay installed longer."
  - "Move people around more."

EXHIBIT VII-4

PLANNED CHANGES IN COMPENSATION PLANS

IN COMING TWO YEARS



- "Broaden career paths."

- "Increase the incentive for above quota performance, new accounts."

- "Assign more systems engineers to product specialization and incentive."

D. OPTIMIZING FOR GROWTH

- A detailed comparison of growth rates and individual company data is not included in this report in order to protect the identity of the individual respondents. Also, the growth rates tend to be historic, while the data gathered in the report is current as of September-November 1977. With these limitations in mind, some indications can be drawn from the comparison of three company examples shown in Exhibit VII-5:

  - The most consistent relationship is between growth and turnover. Higher turnover ties to lower growth.

  - Marketing costs and incentive compensation as a percent of RCS revenues do not tie directly to growth. As discussed in earlier sections, marketing costs in particular have an almost random relationship to revenue growth.

- Exhibit VII-6 reports anticipated sources of new RCS business. Of the 10 respondents, only two anticipated less than 70% of new business to come through new applications. The respondents with the lowest estimate, 20%, considers the main competition to be IBM hardware. The marketing thrust in this company is to encourage a client to put an application on an RCS service in lieu of installing additional IBM hardware. Interestingly, more than one-half of the sales management in this company is ex-IBM.

EXHIBIT VII-5

COMPARISON OF GROWTH RATE, MARKETING COST, PERCENT INCENTIVE COMPENSATIONS, TURNOVER FOR THREE SAMPLE COMPANIES

INDIVIDUAL GROWTH RATE 1975 - 1976	MARKETING COST AS % OF RCS REVENUES	INCENTIVE COMPENSATION AS A % OF RCS REVENUES	TURNOVER
> 20%	28%	3%	25%
> 10%	26	4	35
> 5%	40	5	45

EXHIBIT VII-6

SOURCES OF NEW RCS BUSINESS - PERCENT OF TOTAL

SOURCE OF NEW	BY RESPONDENT PERCENT OF TOTAL NEW BUSINESS										
	1	2	3	4	5	6	7	8	9	10	AVERAGE
TAKEN FROM OTHER SERVICES COMPANIES	25%	15%	30%	20%	5%	30%	15%	20%	25%	15%	20%
TAKEN FROM EQUIPMENT COMPANIES	0	15	0	10	15	15	5	10	20	0	12
CREATED THROUGH NEW APPLICATIONS	75	70	70	70	80	20	80	70	55	85	68

- As discussed in earlier chapters, turnover largely results from competition between services companies for a limited supply of trained marketing personnel. For growth of the industry to be optimized, this limitation must be removed through recruiting and training of new competent marketing personnel. The need is particularly critical because of the nature of new business - over two thirds comes from the creation of new applications, and this requires competent, experienced personnel.

- The final conclusion is clear. A challenge to services companies is to develop the additional marketing personnel who can function as problem-solvers and apply this capability in the creation and sale of the new applications which are the key to industry growth.

APPENDIX A: DEFINITIONS

APPENDIX A: DEFINITIONS

- **COMPUTER SERVICES**

  These are services provided by vendors which perform data processing functions using vendor computers, or assist users to perform such functions on their own computers.

  The following are definitions of the modes of service used in this report:

- **REMOTE COMPUTING SERVICES (RCS)**

  Provision of data processing to a user by means of terminals at the user's site/s connected by a data communications network to the vendor's central computer. The three sub-modes of RCS are:

  1. INTERACTIVE (timesharing) is characterized by interaction of the user with the system, primarily for problem solving timesharing, but also for data entry and transaction processing; the user is "on-line" to the program/files.

  2. REMOTE BATCH is where the user hands over control of a job to the vendor's computer which schedules job execution according to priorities and resource requirements.

  3. DATA BASE is characterized by the retrieval of information from a vendor-maintained data base. This may be owned by the vendor or a third party.

- BATCH SERVICES

This includes data processing performed at vendors' sites of user programs and/or data which are physically transported (as opposed to electronically by telecommunications media) to and/or from those sites. Data entry and data output services, such as keypunching and COM processing, are also included. Batch services include those expenditures by users which take their data to a vendor site which has a terminal connected to a remote computer used for the actual processing.

- FACILITIES MANAGEMENT (FM)

(Also referred to as "Resource Management" or "Systems Management"). The management of all or part of a user's data processing functions under a long-term contract (not less than one year). To qualify as FM, the contractor must directly plan and control as well as operate the facility provided to the user on-site, through communications lines, or in mixed mode. Simply providing resources, even though under a long-term contract and/or for all of a users' processing needs, does not necessarily qualify as FM.

- PROFESSIONAL SERVICES

Management consulting related to EDP, systems consulting, systems design and programming, and other professional services are included in this category. Services can be provided on a basis of: "Time and Materials," whereby the user pays for the time used of an individual on a daily or other fixed rate, or "Fixed Price," where the user pays a fixed fee for a specific task or series of tasks.

- SOFTWARE PRODUCTS

This category is for users' purchases of systems and applications packages for use on in-house computer systems. The figures quoted include lease and purchase expenditures, as well as fees for work performed by the vendor to implement and maintain the package at the users' sites. Fees for work performed by organizations other than the package vendor are counted in professional services. The two sub-categories are:

1. <u>SYSTEMS PACKAGES</u> are operating systems, utilities, and language routines that enable the computer/communications system to perform basic functions. This software is provided by the mainframe manufacturers with their hardware; other vendors provide improved versions of this and special-purpose routines. This classification includes compilers, data base management software, communications packages, simulators, performance measurement software, diagnostic software, and sorts.

2. <u>APPLICATIONS PACKAGES</u> are software which perform processing to serve user functions. They consist of general purpose packages, such as for accounting and inventory control, and special purpose packages, such as personal trust, airline scheduling, and demand deposit accounting.

- **PROCESSING SERVICES**

Processing services encompass FM, RCS, and batch services: they are categorized by type of service, as distinguished from mode of service, bought by users as follows:

- <u>GENERAL BUSINESS</u> services are processing services for applications which are common to users across industry categories. Software is provided by the vendor; this can be a complete package, such as a payroll package, or an application "tool," such as a budgeting model, where a user provides much of the customizing of the finished product it uses. General business processing is often repetitive and transaction oriented.

- <u>SCIENTIFIC AND ENGINEERING</u> services are the processing of scientific and engineering problems for users across industries. The problems usually involve the solution of mathematical equations. Processing is generally problem solving and is nonrepetitive, except in the sense that the same packages or "tools" are used to address different, but similar, problems.

- INDUSTRY SPECIALTY services provide processing for particular functions or problems unique to an industry or industry group. The software is provided by the vendor either as a complete package or as an application "tool" which the user employs to produce its unique solution. Specialty applications can be either business or scientific in orientation; data base services where the vendor supplies the data base and controls access to it (although it may be owned by a third party) are also included under this category. Examples of industry specialty applications are: seismic data processing, numerically-controlled machine tool software development, and demand deposit accounting.

- UTILITY services are those where the vendor provides access to a computer and/or communications network with basic software that enables any user to develop its own problem solution or processing system. These basic tools include terminal handling software, sorts, language compilers, data base management systems, information retrieval software, scientific library routines, and other systems software.

APPENDIX B: INTERVIEW PROGRAM FOR MARKETING COMPENSATION PLANS STUDY

APPENDIX B: INTERVIEW PROGRAM FOR MARKETING COMPENSATION PLANS STUDY

MANAGEMENT LEVEL IN RCS ORGANIZATION	NUMBER OF IN-PERSON OR TELEPHONE INTERVIEWS
TOP MANAGEMENT	
Sales/Marketing	10
Other	4
MIDDLE MANAGEMENT	10
SALESMAN	10
TOTAL	34

Total Companies Interviewed: 11

APPENDIX C: QUESTIONNAIRES

Project Code: MAS-MEX

CATALOG. NO. ☐☐☐☐☐☐

MARKETING COMPENSATION PLANS

FOR TOP MANAGEMENT (PRESIDENT AND/OR V.P. MARKETING)

1. Describe the basic objective of your marketing compensation plan at the salesman and sales manager levels.

2. Please rate the following characteristics in order of importance: (5 = high; 0 = unimportant)

Rank

a) New business

b) Maintenance of existing business

c) Salesmen morale

d) Teamwork

e) Individual effort

f) Promote specific products

g) Support total corp. objectives

3. Number of sales managers ______________

Number of direct salesmen ______________

Number of technical support people ______________

4. What do you estimate are your total marketing costs as a percentage of RCS*revenues?

____

(continued next page)

*Remote Computing Services

4. (contd.)

What do you estimate is your average percentage of incentive compensation per dollar of RCS revenues?

___

Is each of these percentages increasing, decreasing, or remaining stable?

___

5. What are the average revenues per salesman? ___

What is the approximate range of revenues per salesman company-wide?

___

6. What percent of total average compensation is commission? ___

7. With regard to No. 6, what is the percentage of commission for your most successful salesmen?

___

8. What is the annual total income range for salesmen? ___

For support personnel? ___

For sales managers? ___

9. What is the incentive program for sales managers?

10. What incentives other than commission do you use, and how effective are they?

___

Special payments for specific sales, e.g. new business: ___

___

(continued next page)

10. (contd.)

Different commissions for different products: ________________

____

Annual bonus: ________________

Product promotions during the year: ________________

"100% Clubs", etc.: ________________

Stock options: ________________

Company car: ________________

Mileage allowance: ________________

11. What has been your turnover rate for salesmen? ________________

Rate reasons for leaving: (5 = highest; 0 = lowest):

Offer from another company ________

Unhappy with your company ________

Fired ________

Other ________

Comments: ________________

____

12. How is your marketing organized?

By geographic area ________

By product ________

By national account ________

By industry ________

13. How are company-wide quotas set?

14. In summary, are you pleased with how your marketing compensation plan functions?

15. What aspects of the plan have worked particularly well?

16. What have you changed in the past 1-2 years?

17. What will you change in the next 1-2 years?

CATALOG. NO. [ ][ ][ ][ ][ ][ ]

Project Code: MAS-MEX

FOR SALES MIDDLE MANAGEMENT (BRANCH/DISTRICT MANAGERS)

1. Describe the basic objective of your marketing compensation plan at the salesman and sales manager levels.

2. Describe the organization of your region/branch:

   Number of salesmen: ________________

   Number of support people: __________

   Any special functions e.g., product marketing specialists, national account specialists?

   ____

3. What is the incentive plan for salesmen?

   For support people?

   For managers?

   What is the current range of incomes for salesmen? _____________________

   For support people? _____________________

4. How are individual quotas set?

5. To what extent do salesmen participate in the quota setting process?

6. When are commissions paid?

   When the product is sold ______

   When the product is shipped and accepted _______

   When the product is paid for ________

7. Is a salesman penalized if he loses an account? ________

   What is the penalty? ____

8. How are accounts assigned?

9. When are account assignments changed?

10. What is your recruiting procedure?

11. Please rate the following characteristics that you look for in a salesman: (5 = most; 0 = least)

____ technical competence

____ ability to relate to people

____ strong drive

____ ability to make presentations

What, in your experience, is the indispensable characteristic a successful salesman must have?

____

What is the most successful source? ____________________________

12. Describe your training program: Duration of program: ______________

Other comments:

13. Describe and give your opinion of the incentive plan for sales management:

14. When you are going after new business, what breakdown do you target among:

________% taken from other services companies.

________% taken from equipment companies.

________% created through new applications, etc.

15. Is your branch/district typical for the company?

16. In summary, are you pleased with how your marketing compensation plan functions?

17. What has worked particularly well?

18. What have you changed in the past 1-2 years?

19. What will you change in the next 1-2 years?

CATALOG. NO. ☐☐☐☐☐☐

Project Code: MAS-MEX

FOR SALESMEN

Date: ____________________

1. Describe the basic objective of your marketing compensation plan as you perceive it.

2. Please rate the following in order of importance to you:
(5 = high; 0 = unimportant)

_____ base salary

_____ commission

_____ security

_____ career growth potential

_____ bonus

_____ working conditions

_____ product quality

_____ company image

_____ special recognitions, i.e. "100% Club"

_____ simplicity of the plan

_____ other (specify) ____

3. What, in your experience, is the most effective motivator?

4. What, in your experience, is the greatest hinderance to higher sales?

5. Do you feel you have adequate voice in the determination of your annual quota, targets, etc.?

6. What product(s) do you emphasize, and why?

7. What product(s) don't you emphasize, and why?

8. Evaluate the amount and type of training you received.

9. What do you like about the current marketing plan?

10. What would you change in the current marketing plan - e.g. ratio of incentive?

11. What is your career objective in 1 year? ______________________

____

5 years? ______________________________________

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total career? __________________________________

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