

Conceptual Foundations and Case Studies of Salesforce Compensation Plans

Bearbeitet von
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1. Auflage 2016. Taschenbuch. 268 S. Paperback

ISBN 978 3 7323 8001 5

Format (B x L): 17 x 24 cm

Gewicht: 513 g

[Wirtschaft > Spezielle Betriebswirtschaft > Absatz & Vertrieb](#)

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Marlon Braumann

Conceptual Foundations and Case Studies of Salesforce Compensation Plans

Dissertation, Wissenschaftliche Hochschule für Unternehmensführung (WHU) –
Otto Beisheim School of Management, Vallendar 2016

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WHU Publishing – WHU on Sales
Verlag: tredition GmbH, Hamburg

ISBN

Paperback 978-3-7323-8001-5

Hardcover 978-3-7323-8002-2

Printed in Germany

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Foreword

The salesforce is the oldest go-to-market channel of the firm. Long before print advertisement, radio and television commercials, let alone digital communication, peddlers rode their horses into remote farm towns to sell to local consumers, and drummers crossed the country on the new railways with their sample bags to sell to local businesses. Until this day, the salesforce represents the key customer touchpoint in global business-to-business and the lion share of marketing investments in the economy.

The management of the salesforce differs strongly from the management of the production army. The key difference regards the transparency of work behavior: As salespeople spend most of their time on the road, no foreman can stand behind them and drive them to work in the best interest of the firm. Since the days when salespeople telegraphed their numbers to headquarters, expedited order slips by mail, and called in from public phone booths, the management of salespeople has been an effort to remote-control people whom you hardly see.

The traditional means of remote-controlling salespeople is the incentive contract. Given the information asymmetry between the sales frontier and headquarters, compensation plans seek to align the self-interest of the sales agent with the utility of the principal. Where the salesforce is not on the payroll of the firm but composed of independent representatives and agents, the commission plan is the only possible control mechanism as the firm legally may not dictate the working time and place of the rep. Not surprisingly, managers and salespeople alike spend much time designing and discussing compensation plans.

Specific questions of compensation plan design have received intense academic scrutiny, for example the optimal balance between variable and fixed pay. A large number of agency-theoretic papers model the conditions affecting the shape of the pay-to-performance curve. However, there are comparatively few holistic academic guides through the entire process of compensation plan design.

The dissertation of Marlon Braumann is positioned at the interface between academic research and managerial design decisions. He provides a conceptual framework for developing and implementing a compensation plan that is tailored to the firm's sales strategy. His framework identifies key design contingencies in the domains of salesperson type, performance assessment, benchmark information, pay plan leverage, other incentives, pay-to-performance relationship, plan evaluation, and deployment. For example, it provides a set of criteria for deciding about the choice of input-based vs. outcome-based performance measures. Each criterion is supported by references to research and theories. Braumann also demonstrates the practical application of his framework to two large direct selling organizations in Germany.

I commend the author on building an academic bridge between theoretic research and practical applications. His research approach stands in the tradition of pragmatism and social

engineering. Just as a firm needs the bridge-building of production, marketing, and sales to bring R&D's inventions to the market, the academy needs applied research to fulfill its deeds and service to society. "Town" and "gown" need intermediaries on the academic side.

To conclude, Braumann's framework highly deserves widespread adoption as a reference by both academic and managerial audiences. My congratulations and recommendations accompany this book and its dissemination.

Vallendar, February 2016.

Professor Dr. Ove Jensen

Chair of Sales Management and Business-to-Business Marketing

Acknowledgements

In July 2015 this work on salesforce compensation was accepted as a doctoral thesis to attain the degree of Doctor rerum politicarum (Dr. rer. pol.) from WHU – Otto Beisheim School of Management, Germany. It was devised during my time as a research assistant at the Chair of Sales Management and Business-to-Business Marketing. The development of this thesis would not have been possible without the generous support of some people who are very dear to me.

First of all, I would like to express my deep gratitude to the first supervisor of this doctoral thesis, Professor Dr. Ove Jensen. As a student, I thoroughly enjoyed your classes and it was you who initially aroused my interest in the field of sales force management. A research assistant at your Chair, I appreciated your outstanding personal support and the fruitful conceptual discussions we had. No less cordially, I would like to thank the second supervisor of this thesis, Professor Dr. Walter Herzog. I cherished the insightful methodological and conceptual arguments we had during the elaboration of this doctoral thesis and in the run-up to its defense.

Secondly, and with equal appreciation, may I express my delight at having had the chance to work in collaboration with the best colleagues I could have imagined. I am most proud of and sincerely grateful for the exceptional team spirit and solidarity that we fostered during our time together. I thank you for this unique experience and I am sure that many long-lasting friendships were formed. Special thanks are due to Cristina Hofmann-Gonzalez, Bettina Ruppert, Lena Stiehl, Dr. Julian Bastgen, Dr. Lucas Heilmann, Benjamin Klitzke, Benedikt Neufang, and Dr. Alexander René Schmutzler. Besides my colleagues from the Chair, I would like to thank Mr. Jonathan Zengler from the WHU IT

team for his patient assistance in recovering my damaged hard drive. Likewise, I want to thank my room mate Oliver Ruschhaupt for his personal support and numerous rewarding conceptual debates during late hours.

Thirdly, I shall not forget to thank my friends and closest confidants for joining me on my journey thus far. I would honestly not have been able to go this way without your continuous and generous support. I appreciate your untiring personal backing and your understanding when most of my time happened to be dedicated to this doctoral thesis.

Finally, I am greatly indebted to my parents for supporting me and my personal goals throughout the last 26 years; I would certainly not be at this point were it not for you. I would especially like to thank my mother Astrid Ames, who has always encouraged and supported me wherever possible. In the past two and a half years in particular, I remember numerous weekends on which she lost out against the time I spent working on this thesis at my desk. Thank you for your unconditional support!

Marlon Braumann

Overview of contents

Foreword	I
Acknowledgements	III
Overview of contents	V
Table of contents	VII
List of figures	XII
List of tables	XVI
List of abbreviations	XIX
1 Introduction	1
1.1 Relevance	1
1.2 Research objectives and research questions	4
1.3 Research approach and thesis structure	5
2 Theoretical foundations of salesforce compensation	9
2.1 Theories of the effectiveness of outcome-contingent compensation	10
2.2 Theories of salesforce compensation plan design	26
2.3 Theories of salesforce compensation plan design and implementation	35
2.4 Overview of theoretical foundations	41
3 Literature review	45
3.1 Evolution of the salesforce management literature	45
3.2 Processes of salesforce compensation plan design	48
3.3 Seven key research questions in the salesforce compensation literature	51
4 Salesforce compensation plan design and implementation	75
4.1 Introduction to the developed <i>TAILORED</i> process	75
4.2 Development of the <i>TAILORED</i> framework	78
4.3 Dimensions of the <i>TAILORED</i> framework	79
5 Compensation plan design at <i>Toolio AG</i>	168
5.1 Particularities and objectives of the case study	168
5.2 Background information of <i>Toolio AG</i>	168
5.3 Development process of the case study	171
5.4 Modified compensation plan design at <i>Toolio AG</i>	174
5.5 Discussion of plan modifications in a change logic	189
5.6 Research contribution of this case study	199
6 Plan evaluation at <i>Technology GmbH</i>	201
6.1 Particularities and objectives of the case study	201
6.2 Background information of <i>Technology GmbH</i>	201
6.3 Development process of the case study	206

6.4	Evaluation of the team leader compensation plan.....	209
6.5	Research contribution of this case study	221
7	Conclusion	223
7.1	Managerial contribution	223
7.2	Academic contribution	223
7.3	Avenues for future research	225
	Bibliography	227

Table of contents

Foreword	I
Acknowledgements	III
Overview of contents	V
Table of contents	VII
List of figures	XII
List of tables	XVI
List of abbreviations	XIX
1 Introduction	1
1.1 Relevance	1
1.2 Research objectives and research questions	4
1.3 Research approach and thesis structure	5
2 Theoretical foundations of salesforce compensation	9
2.1 Theories of the effectiveness of outcome-contingent compensation	10
2.1.1 Agency Theory	10
2.1.2 Transaction Cost Theory	14
2.1.3 Cognitive Evaluation Theory	18
2.1.4 Motivation Crowding Theory	23
2.2 Theories of salesforce compensation plan design	26
2.2.1 Expectancy Theory	26
2.2.2 Goal-Setting Theory	28
2.2.3 Prospect Theory	31
2.3 Theories of salesforce compensation plan design and implementation	35
2.3.1 Equity Theory	35
2.3.2 Concept of Organizational Justice	38
2.4 Overview of theoretical foundations	41
3 Literature review	45
3.1 Evolution of the salesforce management literature	45
3.2 Processes of salesforce compensation plan design	48
3.2.1 Classification of existing plan design processes	49
3.3 Seven key research questions in the salesforce compensation literature	51
3.3.1 How to find the balance between behavior- and outcome-based control?	51
3.3.2 How to determine salespeople's target pay level?	55
3.3.3 How to determine the portion of outcome-contingent compensation?	57
3.3.4 How to use quota-based bonuses?	61
3.3.5 How to use commissions?	65

3.3.6	How to use sales contests?	68
3.3.7	How to use material, non-monetary incentives?	71
4	Salesforce compensation plan design and implementation.....	75
4.1	Introduction to the developed <i>TAILORED</i> process.....	75
4.2	Development of the <i>TAILORED</i> framework.....	78
4.3	Dimensions of the <i>TAILORED</i> framework.....	79
4.3.1	Task and type profile of the salesforce.....	79
4.3.1.1	Task profile of the salesforce	79
4.3.1.2	Type of sales personnel.....	82
4.3.2	<i>Assessing salesforce performance</i>	84
4.3.2.1	Performance measures	85
4.3.2.1.1	Number of measures	85
4.3.2.1.2	Unit of measurement.....	86
4.3.2.2	Nature of performance metric.....	87
4.3.2.3	Linkage of performance measures	89
4.3.2.3.1	Performance measure weighting.....	89
4.3.2.3.2	Performance measure matrix	89
4.3.2.3.3	Gatekeeper linkage.....	92
4.3.3	Insights	93
4.3.3.1	Labor market insights	93
4.3.3.2	Internal standards	95
4.3.4	Level and leverage	96
4.3.4.1	Target pay level.....	96
4.3.4.2	Target pay range	100
4.3.4.3	Leverage.....	101
4.3.5	Other incentives.....	111
4.3.5.1	Fixed non-monetary incentives.....	113
4.3.5.2	Outcome-contingent non-monetary incentives	115
4.3.5.2.1	Merchandise and travel	115
4.3.5.2.2	Recognition programs	117
4.3.5.2.3	Sales contests	118
4.3.6	Relationship.....	121
4.3.6.1	Use of commission elements	121
4.3.6.2	Use of bonus elements	123
4.3.6.3	Performance quota level	125

4.3.6.4	Payout entry level	128
4.3.6.5	Use of overachievement commissions or bonuses.....	130
4.3.6.6	Use of compensation caps.....	134
4.3.6.7	Measurement period.....	137
4.3.6.8	Use of peer ranking elements.....	139
4.3.7	Evaluation.....	141
4.3.7.1	Is the compensation plan just and legal?.....	142
4.3.7.1.1	Justice assessment.....	142
4.3.7.1.2	Legal compliance	144
4.3.7.2	Does the plan attract the desired type of sales personnel?.....	144
4.3.7.2.1	Competitiveness check.....	144
4.3.7.2.2	Comparativeness check.....	145
4.3.7.2.3	Retention check.....	146
4.3.7.3	Does the plan energize salespeople?.....	147
4.3.7.3.1	Payout distribution check.....	147
4.3.7.3.2	Engagement rate check	148
4.3.7.3.3	Excitement index check	149
4.3.7.3.4	Quota accuracy check	149
4.3.7.4	Does the plan direct salespeople towards the desired activities?.....	151
4.3.7.4.1	Pay-performance check.....	151
4.3.7.4.2	MECEness check of compensation-relevant performance measures	152
4.3.7.5	How much transition risk does the plan modification entail?.....	153
4.3.7.5.1	Who gets helped and who gets hurt analysis	153
4.3.7.5.2	Income loss analysis and revenue at risk check.....	154
4.3.7.5.3	Cost efficiency check.....	155
4.3.8	Deployment.....	157
4.3.8.1	Manage transition risk.....	157
4.3.8.2	Identify stakeholders and understand their needs	159
4.3.8.3	Communicate a salesforce compensation plan	163
5	Compensation plan design at <i>Toolio AG</i>	168
5.1	Particularities and objectives of the case study.....	168
5.2	Background information of <i>Toolio AG</i>	168
5.2.1	Business operations and product portfolio	168
5.2.2	Customer and salesforce structure at <i>Toolio AG</i>	169

5.3	Development process of the case study	171
5.3.1	Contact with <i>Toolio AG</i>	171
5.3.2	Overview of project progression	171
5.3.3	Data collection principles.....	173
5.4	Modified compensation plan design at <i>Toolio AG</i>	174
5.4.1	Functions of the salesforce compensation plan at <i>Toolio AG</i>	174
5.4.2	Modified task and type profile of the salesforce	176
5.4.3	Modified performance assessment of the salesforce.....	178
5.4.4	Modified insights into compensation plan design.....	181
5.4.5	Modified target pay level and leverage	182
5.4.6	Modified use of other incentives.....	183
5.4.7	Modified relationship between pay and performance	186
5.5	Discussion of plan modifications in a change logic.....	189
5.5.1	Discussion of modified performance assessment.....	191
5.5.1.1	Reduction of the number of performance measures	191
5.5.1.2	Gatekeeper linkage of sales revenue and average contribution margin....	192
5.5.1.3	Abolishment of the recruiting and the lead generation premium	193
5.5.2	Discussion of the modified leverage	194
5.5.2.1	Reduction of the outcome-contingent portion of compensation.....	194
5.5.3	Discussion of the modified pay-performance relationship	196
5.5.3.1	Reduced usage of peer-based performance rankings.....	196
5.5.3.2	Cumulative twelve-month measurement period	198
5.6	Research contribution of this case study	199
6	Plan evaluation at <i>Technology GmbH</i>	201
6.1	Particularities and objectives of the case study.....	201
6.2	Background information of <i>Technology GmbH</i>	201
6.2.1	Business operations and product portfolio	201
6.2.2	Customer and salesforce structure.....	202
6.3	Development process of the case study	206
6.3.1	Contact with <i>Technology GmbH</i>	206
6.3.2	Overview of project progression	207
6.3.3	Data collection principles.....	208
6.4	Evaluation of the team leader compensation plan.....	209
6.4.1	Evaluation scope and performance data base.....	209
6.4.2	Application of selected plan evaluation techniques	210
6.4.2.1	Organizational objective 1: Less selling-orientation of team leaders.....	210

6.4.2.1.1	Complexity check	211
6.4.2.1.2	Engagement rate / excitement index for product and accessory sales ...	212
6.4.2.1.3	Who gets helped and who gets hurt analysis	213
6.4.2.1.4	Income loss analysis and revenue at risk check.....	214
6.4.2.2	Organizational objective 2: More team leadership and development.....	215
6.4.2.2.1	Engagement rate / excitement index for the team leadership premium.	215
6.4.2.2.2	Quota accuracy check of the team leadership premium	217
6.4.2.3	Organizational objective 3: More recruiting and training of new entrants	218
6.4.2.3.1	Engagement rate / excitement index of the recruiting premium.....	218
6.4.2.3.2	Effectiveness of the training premium	219
6.4.3	Evaluation summary.....	220
6.5	Research contribution of this case study	221
7	Conclusion	223
7.1	Managerial contribution	223
7.2	Academic contribution	223
7.3	Avenues for future research	225
	Bibliography.....	227

List of figures

Figure 1: Research objectives and research questions of this thesis	4
Figure 2: Research approach and overview of the thesis structure	8
Figure 3: Illustrated interaction between a principal and an agent	11
Figure 4: Relationship between external consequences and intrinsic motivation.....	20
Figure 5: Human beings' utility curve as proposed by <i>Prospect Theory</i>	32
Figure 6: Transformed and objective probability function	33
Figure 7: From human beings' equity judgment to their behavioral reaction.....	37
Figure 8: Determinants and job-related outcomes of <i>Organizational Justice</i>	39
Figure 9: Sales-related articles across sales & marketing journals	46
Figure 10: Sales-related articles beyond sales & marketing journals	46
Figure 11: Salesforce management research topic emphasis (1983 – 2006)	47
Figure 12: Selected processes of salesforce compensation plan design.....	48
Figure 13: Classification of different compensation plan design processes	50
Figure 14: <i>TAILORED</i> compensation plan design and implementation.....	76
Figure 15: Development process of the <i>TAILORED</i> framework	78
Figure 16: Structured job classification of salespeople.....	80
Figure 17: Illustration of the performance measure weighting approach	89
Figure 18: Illustration of a performance measure matrix.....	90
Figure 19: Illustration of the “Gonik plan”	91
Figure 20: Gatekeeper linkage of sales and profit margin	92
Figure 21: Compensation cost of sales median and variance across industries	96
Figure 22: Pay level and pay range for field salespeople across industries	97
Figure 23: Salespeople's target pay level as a function of their experience	99
Figure 24: Average leverage of sales-related jobs across industries.....	106

Figure 25: Classification of incentives for salespeople.....	112
Figure 26: Internal, external, and personal perks for salespeople.....	114
Figure 27: Use of company cars in German salesforces	114
Figure 28: Use of different incentive types across German salesforces	117
Figure 29: Different commission plan structures.....	122
Figure 30: Different quota-based bonus plan structures	124
Figure 31: Options of different payout entry levels	129
Figure 32: Different examples of payout curves for salespeople.....	131
Figure 33: Different forms of salesforce compensation caps.....	135
Figure 34: Effect of hyperbolic discounting on the subjective incentive value	138
Figure 35: Salesforce compensation plan evaluation framework	142
Figure 36: Illustration of a comparativeness check.....	145
Figure 37: Illustration of a salesforce retention check	146
Figure 38: Illustration of a payout distribution check	147
Figure 39: Illustration of an engagement rate check.....	149
Figure 40: Trail-off of salespeople's sales performance	150
Figure 41: Desired versus actual quota distribution.....	150
Figure 42: Illustration of a pay-performance check	152
Figure 43: MECEness check of compensation-relevant performance measures	152
Figure 44: Illustration of a "Who gets helped and who gets hurt analysis".....	153
Figure 45: Illustration of an income loss analysis.....	154
Figure 46: Illustration of a revenue at risk check.....	155
Figure 47: Time-series analysis of product sales over a period of 24 months	156
Figure 48: Framework of salesforce compensation plan deployment.....	157
Figure 49: Different sub-groups of salespeople in a 2x2 matrix.....	160

Figure 50: Illustration of a stakeholder allies map	161
Figure 51: Sample structure of an executive summary of a compensation plan	164
Figure 52: Illustration of a summary pocket card for sales managers	167
Figure 53: Hierarchical salesforce organization at <i>Toolio AG</i>	170
Figure 54: Previous salesforce compensation plan at <i>Toolio AG</i>	175
Figure 55: Modified salesforce compensation plan at <i>Toolio AG</i>	176
Figure 56: Number of salespeople and the number of buying customers	177
Figure 57: Original illustration of the applied gatekeeper linkage	180
Figure 58: Other incentives under the previous compensation plan	184
Figure 59: Other incentives after the compensation plan modification	186
Figure 60: Previous payout structures of premiums at <i>Toolio AG</i>	187
Figure 61: Previous measurement periods at <i>Toolio AG</i>	188
Figure 62: Modified quota-based premiums at <i>Toolio AG</i>	189
Figure 63: Change logic model to illustrate the plan modifications at <i>Toolio AG</i>	190
Figure 64: <i>Technology GmbH</i> as a business unit of <i>Electro AG</i>	202
Figure 65: Customer profile of <i>Technology GmbH</i>	203
Figure 66: Development of <i>Technology GmbH</i> salesforce size and revenue	204
Figure 67: Simplified overview of compensation plan modifications	205
Figure 68: Performance measures under the previous and the modified plan	211
Figure 69: Engagement rate for product and accessory sales	212
Figure 70: Excitement index for product and accessory sales	213
Figure 71: Who gets hurt and who gets helped analysis for the modified plan	213
Figure 72: Revenue at risk check	214
Figure 73: Engagement rate and excitement index of the team leadership premium	216
Figure 74: Systemic ascent of team leaders to higher remuneration levels	216