WHU on Sales

Conceptual Foundations and Case Studies of Salesforce Compensation Plans

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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

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Marlon Braumann

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