

## Making Incentive Pay Work for You

Many retailers use some form of incentive pay to motivate salespeople — including commissions, bonuses, prizes or some combination of these techniques. And for as long as these forms of compensation have existed, businesses have debated their pros and cons.

Incentive pay can be effective, but it's not the answer for every business. Whether it will work for you — and, if so, how your program should be structured — depends on several factors, including the nature of your business, your strategic goals, your company culture, and your customers' needs.

### Self-Interest vs. Teamwork

Proponents of sales commissions argue that it's the most effective way to attract, retain, and motivate the best employees: The more sales they make, the more they earn. Opponents counter that this approach causes salespeople to place self-interest above the interests of coworkers, the company, and its customers. Commissions, they say, pit employees against one another, destroy trust, and discourage teamwork. Experienced salespeople have little incentive to mentor or support newer employees.

One potential solution is to establish a bonus or profit-sharing program that rewards employees for achieving storewide or departmental goals. This approach encourages teamwork while still providing salespeople with a monetary incentive to excel. On the other hand, a team strategy can make it more difficult to motivate and retain your top performers, who may see little opportunity for personal gain.

The effectiveness of your program will depend to a great extent on your company's culture. Many retailers are able to foster a team culture — by hiring and

training the right people — even while providing incentives for individual performance. And with the right people in place and a carefully structured plan, team-based incentives can be powerful motivators.

### Aligning Compensation With Strategy

Whichever approach you take, the key to effective incentive pay is to align your compensation program with your business strategies. First, identify what you're trying to achieve, and then design a compensation structure that encourages employee behavior that will help you achieve your goals. A company striving to provide excellent customer service will likely need a different compensation structure than one whose goal is to be the low-cost market leader.

If your objective is to increase sales of higher-margin items or new products, then a commission structure based strictly on gross sales will do little to motivate salespeople to promote the right products. If your goal is to encourage cross-selling, team-based incentives may be more effective.

To identify the right compensation structure, it's critical to understand your customers and how your compensation program affects them. Some retailers shy away from incentive pay because they fear salespeople will place their interest in higher commissions above the interests of customers. A few years ago, Circuit City shifted to 100-percent hourly wages to combat the perception of pushy salespeople. And Best Buy eliminated commissions years ago.

On the other hand, there are many examples of retailers, such as Nordstrom and Bloomingdale's,

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that have effectively combined excellent customer service with individual incentives. In most cases, their success comes from cultivating a certain company culture as well as hiring the right people in the first place.

The nature of your business and your customers' needs are also important factors. In the consumer electronics industry, for example, customers are getting more sophisticated and they have access to a wealth of information on the Internet. Often, they know exactly what they want when they walk in the store and may need little assistance from salespeople.

In industries where customers need more guidance, many retailers avoid incentive pay for fear that salespeople will push products that yield higher commissions rather than products that meet the customers' needs. But there are many creative solutions that use other types of incentives to reward salespeople for serving customers. Some retailers, for example, send in "mystery shoppers" and award prizes to salespeople who ask the right questions and help these "customers" buy the right products for their needs.

### Making It Work

Whichever incentive or combination of incentives is best suited to your company, there are a few guiding principles to keep in mind when designing a plan. First, your plan should be easy for employees to understand. The plan won't be effective unless employees can readily calculate how much they

stand to earn and determine what they must do to achieve their goals. Second, sales or other goals should be achievable. If goals appear to be unrealistic or based on factors beyond their control, employees are likely to give up.

Finally, incentive payments should be made frequently so that employees see results quickly and link the payments with the behavior you're trying to encourage. Some retailers pay incentives separately from employees' regular paychecks to bring that message home.

With a solid understanding of your strategic goals and a little creativity, you can develop an incentive pay plan that works for you, your employees, and your customers.

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