



Sales Compensation Plan for Short-Run Digital Printing

A different game or more of the same?

Short-run digital color printing is the hottest game in town. It seems that all types of printers are buying in or thinking about doing so. But once the equipment is installed at photo labs, service bureaus, even large commercial printers, the questions spill out as fast as the print runs: "What can we sell? Who sells it? How do we pay them?"

The heart of short-run printing's customer appeal—low-volume orders at a reasonable price—creates an interesting challenge for management and sales teams. Issue one is reluctance among current sales staff. Commissions received on an \$800 short-run order are drastically lower than the take for a traditional offset \$20,000 print job, yet the short-run sale is more demanding. Terry Nagi, print industry consultant at Terry A. Nagi & Associates, Washington, DC, says, "You've got to spend time analyzing, reach the right people, talk to marketing people vs. purchasing people...it's a whole different sell." According to respondents in a recent Printing Industries of America (PIA) survey, only a handful of experienced commercial-print salespeople successfully switch to selling digital-printing jobs.

Owners of reprographic shops and other outlets outside the traditional printing industry that add short-run printing have even fewer existing resources. It's like starting a brand-new business. These managers must hire people, train them, and motivate them before the sales roll in.

The National Association for Printing Leadership (NAPL) estimates that print business erodes by 15% a year. These orders must be replaced, and then some, if a company expects to grow. When an executive grumbles, "Salespeople are the only ones making money in printing!" that's a hint that something is out of whack in the sales compensation plan. It needs to be refigured, but how? What is fair to employer and employee alike?

Management is key

Designing an effective sales compensation structure requires practical vision: from hiring the right people through implementing the plan and evaluating the results. The factors to consider are:

1. Markets to target and how to reach them
2. Compensation-plan strategy to fit your business goals
3. Salesperson criteria and cost to hire
4. Incentives and disincentives
5. How to test, implement, and evaluate your plan

First, let's look at markets and sales channels. An outside sales rep making direct sales calls to buyers is just one of many channels, according to John Kyriotakis, president of consulting firm Lysis International, Inc., Tampa, FL. "Sales-channel management is critical," he says. "Small or infrequent jobs may not justify employing a salesperson at all."

Channel options could include retail counter sales, inside sales, or a position that combines sales and customer service. Small shops without enough volume to justify hiring a sales employee might consider using an independent broker.

Once you choose a channel, create a wish list of projected sales volume for the first year and a few years out. Printing industry sales consultant David Fellman urges realistic goal setting. "Large-format commercial printers, with 40-in. 6-color presses, can expect a salesperson to generate \$1 million in sales simply because orders are often \$20,000 to \$40,000 each. But let's say they also buy a Heidelberg QMDI, 14- x 20-in. feed, working jobs that run from \$800 to \$2,000 each. It's not reasonable to expect \$1 million out of the salesperson selling work for that QMDI machine. It's more like \$300,000."

Fellman says management must decide how much investment

makes sense in the first year. Current volume has a lot to do with whom you can afford to hire. Under \$300,000 in sales volume, he says, you can't afford a salesperson. It's a do-it-yourself job. Between \$300,000 and \$600,000, you can either sell it yourself or pay an inexperienced salesperson no more than \$30,000 annually. Only when profitable revenues exceed \$600,000 can a company safely hire an experienced printing salesperson with established accounts. But don't rely on significant sales volume from an inexperienced salesperson in the early months, says Fellman. That's a recipe for disaster.

Commission basics

Let's assume you know you can afford a salesperson for short-run orders. So what do you pay them—and how?

You can look to the industry gurus for guidance, but expect to be confused. PIA reports that the average commission on gross sales of digitally printed product is 7%, while it's 9.7% for value-added work because compensation plans often adjust for the comparatively smaller price of such add-ons. However, commission rates also vary according to size of the company. For companies with 21 to 50 employees, the rate ranges from 7 to 11%, but for 100 to 250 employees, it's 5 to 9%.

Compensation structure is up for grabs, too. The most recent PIA compensation survey, released in Dec. 2002, states that digital printers—"mirroring the compensation patterns of other national respondents"—prefer to compensate full-time sales reps with either a straight-salary plan or a salary-plus-commission formula. [Straight salary is simple, but it doesn't encourage extra sales effort.]

However NAPL's recent compensation report, offered this year from data drawn from its 2000 survey of the association's Printing Panel, states that "Commission-only or draw-against-commission plans remain the most popular compensation program for sales reps." Apparently, the technology that enables variable-data printing also yields variable opinions on sales compensation.

Do sales consultants have a clearer view of commission rates? "It depends," Kyriotakis says. Straight commission rates may go to 10% or higher. With a base salary, generally the percentage falls. Commission rates can also depend on the profitability of given jobs, or how competitive the company is. "If it's the coolest company in town and everybody wants to work for them, they can afford to pay a little less and compensate with prestige. But if I owned a small shop, was scared to death I won't be in business

two years from now...to attract a heavy-duty high-stakes person to work for me, I might give him 10-15%, a percentage of the business, and my first-born son. It depends."

Nagi says industry averages are 7 to 8% for commercial printing, ranging from 5 to 10% depending on the product. Payment is generally straight commission or commission plus draw. "Probably 55% to 60% of companies pay some kind of commission, whether on sales or on profits," he adds. Very large web-offset jobs pay lower commission rates. But in short-run sales of \$6,000 to \$10,000, higher rates prevail.

Commissions based on value-added sales or profit margin typically pay on gross minus paper and ink costs, though some firms also subtract a percentage for overhead. This approach encourages more lucrative jobs but has been slow to penetrate the printing industry, Nagi explains, because management holds back. "They think it's giving away the shop. They don't know how to budget it correctly, or how to collect the data or actual cost correctly, and they're looking for a return on investment that sometimes isn't well-calculated into the pricing of the job."

Even so, most successful large offset-printing companies base commissions on value-added, says Fellman.

Customize your compensation

It may be smarter to bypass national averages and simply apply the right solution for your specific business. Choose your salesperson carefully. NAPL's report stressed that digital salespeople need expertise beyond printing, so look for knowledge in marketing, direct mail, Internet Web-to-print models, and even databases.

Kyriotakis believes the compensation method should match the chosen channel. For example, an in-house salesperson working the counter may be best compensated with straight salary sweetened by a small incentive to encourage upselling.

That's the setup at ColorK Graphics in Miami, FL. ColorK acquired its short-run equipment about a year ago and sells 80 to 90% via the Internet. Owner Daniel Korceniewski has no outside

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reps, and just one inside customer service/sales rep. This versatile assistant is compensated with a “nice” base salary, and Korce-niewski encourages him with a 2% commission on the gross sales of a customer’s first order, followed by 1.5% on subsequent orders.

The demanding role played by outside salespeople requires a different reward structure, however. Short-run digital-printing sales candidates are frequently young and inexperienced. Fellman points out that a hardworking outside salesperson might make 15 to 20 prospecting calls per day. Even if 30% of those calls are successful, that means each day’s work results in 10 to 15 rejections. “That’s a lot of rejection to absorb every day,” he says.

An effective compensation structure keeps young salespeople eager to work until the training investment pays off—while protecting the company’s need for revenue.

Fellman builds an effective sales compensation plan using three elements: a guaranteed component that covers basic survival needs (salary or draw); an earned component based on performance (commission); and an incentive component or bonus—tangible rewards to steer salespeople toward fulfilling specific company goals such

as new customers or higher third-quarter profits.

If the plan is structured right, says Fellman, no salesperson can make too much money since the company makes its money first. “You pay a salesperson to convince people to buy from your company. Once that’s accomplished, the orders start to flow.” It may be tempting to ratchet back commissions on so-called “automatic” sales. Fellman doesn’t recommend this, but if you do offer a time-limited “new customer” incentive, make sure the salesperson understands the terms. You don’t want the salesperson to feel penalized for the hard work it takes to establish a repeat customer.

Bert Guinee, president of Miratec Systems Inc. in St. Paul, MN, has been active in short-run digital printing since 1994. “We pay our salespeople based on gross sales, after the dollars are collected,” he says. “While sales are important, the bottom line is...until you collect the funds, you’ve got nothing.” Guinee does a seminar on this topic called, “Cash is King.” He warns, “Companies can sell themselves into bankruptcy if they’re not careful.”

Guinee uses both accelerators and decelerators in his compen-

sation plan. [A decelerator deducts commission from an underperforming employee.] “At the lower end, it’s zero commission, and on the high end I couldn’t care less. There’s no upper limit on our commission. Our sales rep can make a million dollars, because with a properly engineered sales compensation plan, the salesman can never make more money than the company,” he says.

One typical flaw in compensation plans is to pay a fixed rate regardless of the selling price. A salesperson making 15% commission would continue to get 15% even if he sold the product at a discount to get the business. “If the company is paying a fixed rate, but not controlling the price at which the sales rep sells the product, it’s poorly structured,” says Guinee. He recommends variable-rate commissions—the higher the discount, the lower the commission—or payment on gross margin, not gross sales, to protect company profitability.

Fellman points out that profit margins are more compressed on big jobs. “A quick printer may be able to sell \$100 worth of paper with value-added for \$300, but a large commercial printer probably can’t sell \$100,000 worth of paper for \$300,000,” he says. At his former employer, the top salesperson brought in \$2.9 million and three others brought in between \$1.0 to \$2.5 million. Gross margin was set at 30%; the standard commission rate was 4%. “If a job sold at a margin of 25-30%, the commission rate was 3%; if it sold between 20 to 25% margin, the commission dropped to 2%; and if the pricing dipped lower—if we took the order in the first place—the salesperson was paid at 1%.”

Insight on incentives

Incentives can be anything desirable, from hard cash to dinner for two to a trip to Tahiti, with dozens of options in between. Nagi believes that such bonuses should be paid on very specific targets such as preset profit goals, or the number of new accounts developed.

Incentives are best used to motivate behavior, not sales volume, says Fellman. With inexperienced salespeople, still learning how to develop customers and sales volume, bonuses reinforce prospecting and follow-up. A salesperson who identifies 50 real prospects and follows up with them properly is a solid bet to produce more sales volume over time than those with fewer prospects who don’t follow up.

Some printing industry executives view commission as its own incentive, but Fellman points out that most successful sales organizations include bonus opportunities to keep the salesperson focused on company goals. The bonus is a trigger to achieve a specific desired action. For example, set a maximum \$500 bonus to focus on a first-quarter sales target, with the quota broken down into three monthly amounts. If the salesperson reaches one

Another Perspective: Selling Without Salespeople

"I've never had any luck with salespeople," says Drew Herzoff, president of PsPrint. After 12 years in the industry, he's finally found a way to do without them.

PsPrint sells via the Internet, exclusively. Herzoff's sales have grown roughly 50% a year over the past four years "and we've grown more profitable each year," he says. Without citing sales figures, he believes his company is one of the largest in the country using the Internet sales channel. He does employ customer serv-

ice people, but their compensation is straight salary, with no selling or incentives. "They're troubleshooters," he says.

PsPrint customers come online and get a quote right there, so Herzoff doesn't need a quoting department. He also simplified his product offerings. "We try to give people a good selection, but we narrowed things down as far as geometry, size, and amount of colors. It's all four-color process or black."

"I've been trying to go where

the profit has been," he continues. "I was in a color trade house when film was big, then I got into short-run postcards.

His two-cents on short-run sales? "The hard message you need to send is that the industry needs to come up with some ways to do this, because it isn't being done successfully right now. There's a real challenge doing walk-up type work, if it's not automated." For example, see the problem of the quick-print chains. "A guy might last for a

couple years, but when he loses that one big customer that he's worked all that time servicing...or when he leaves that company to go to another company...it's detrimental when you have all these short-run jobs aggregated under a few customers." Corporate short-run jobs are a different story. "That works. But the little jobs that are the volume out there, that people want to do...they aren't being fulfilled by that kind of [sales] relationship. That's the tough-love answer."

month's quota, he gets \$100; if he makes quota two consecutive months, the second payment is increased to \$150; if he makes all three months, the third bonus payout is \$250. Using this step-by-step approach, the successful salesperson's total bonus is \$500—and you've stimulated a desirable pattern of behavior.

Add-on commissions are another possibility. Here, salespeople who hit a particular monthly sales target receive an additional payment of 0.5 to 1.0%.

Or try flexibility. NAPL reports that some companies now customize their sales plans to meet specific requirements of individual salespeople, rather than following a one-size-fits-all compensation schedule.

Some salespeople prefer to work for bonus prizes rather than cash. At Miratec, Guinee motivates his people with a favorite incentive—airline miles. "You can buy miles from most airlines for about 2 cents per mile," he says. "25,000 miles equals a trip." Gift certificates for dinners or expense-paid trips to a convention are other options. And if you don't know whether cash or prizes will be the better motivator for your own sales force, ask!

Rules and implementation

The NAPL report states that some printers are now paying special commissions on unique products and services. If you are one of them, make the products and services covered under your plan clear, and include timeframes for incentives.

If your compensation plan includes an extra kicker for bringing in new customers, Fellman recommends holding the higher "new customer" rate for the calendar year—and carrying over October through December sales completely through the following year, creating an incentive to keep new jobs flowing through the autumn holidays and Christmas.

A written compensation plan prevents any misunderstanding or confusion. Cite specific terms and conditions, such as eligibility, performance measurements, and dates for awards. To be safe, let your attorney look over the draft to make sure terms are appropriate before presenting the final version to your sales force.

You want a compensation plan that the average person can understand, so don't write it in legalese. Kyriotakis suggests that the plan be understandable, equitable, flexible, achievable, and measurable. "Sales reps are likely to embrace a plan that is realistic, free of caps, based on performance factors they can control, and guaranteed not to change midstream," he says. Once the plan is introduced, make changes only to correct major design flaws to avoid disrupting the sales cycle. You can make the minor improvements next year.

Finally, avoid the Ivory Office syndrome. Undermanaged salespeople don't perform well. When the president sits down regularly to listen and respond to customer or sales concerns, the company is in the game for the long haul, positioned for more hits and fewer errors. **DC**