

Key Terms

pay structures	175	common review date	184	recoverable draws	190
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Discussion Questions

- 8-1. Respond to the following statement: "Pay grades limit a company's ability to achieve competitive advantage." Do you agree? Provide a rationale for your position.
- 8-2. Two employees perform the same job, and each received exemplary performance ratings. Is it fair to give one employee a smaller percentage merit increase because his pay falls within the 3rd quartile but give a larger percentage merit increase to the other because his pay falls within the 1st quartile? Please explain your answer.
- 8-3. Describe some ethical dilemmas sales professionals may encounter. How can sales compensation programs be modified to minimize ethical dilemmas?
- 8-4. React to the statement: "Merit pay grids have the potential to undermine employee motivation." Please discuss your views.
- 8-5. Compression represents a serious dysfunction of pay structures. Discuss some of the major ramifications of compression. Also, discuss how companies can minimize or avoid these ramifications.

CASE

A New Sales Representative

★ *An additional Supplemental Case can be found on MyManagementLab.*

After 10 years in business, John Shurtman has determined that it is time to hire a sales representative. As the founder and president of United Fleet Service (UFS), John has been the main driver of new business sales for the company. However, as UFS has grown, John has found that he must spend more time on planning and administration, leaving little time to generate new sales leads or call on potential customers.

UFS provides maintenance, mechanical repair services, and body repair services to organizations that maintain fleets of large vehicles. UFS customers include mostly school districts that own bus fleets and municipalities that own fleets of fire and police vehicles. While UFS has a strong hold on these public sector organizations, John sees many opportunities for expansion through targeting other potential customers such as utility companies and commercial trucking companies.

UFS has several competitors in its geographic area, but none provide as comprehensive a service as UFS. For example, several competitors provide mechanical repair services, but do not provide body repair services; on the other hand, several competitors provide body repair services, but do not provide mechanical repair services. UFS also has a reputation for high-quality repairs and fast turnaround times on service. With these strengths in mind, John is convinced that an effective sales representative that can take the time to contact and develop relationships with potential customers can help lead the organization to expansion.

John has experienced steady growth over the past 10 years, acquiring just two or three new customers each year. Leads on potential new customers have come primarily through referrals from current customers. John personally called on the leads to secure sales. Once a target was established as a customer, John handed

the customer account over to a service advisor. The service advisor's role is to process incoming vehicles and communicate work progress with customers. Service advisors are also encouraged to generate new sales from current customers by suggesting add-on services or establishing ongoing maintenance schedules. Due to increased volume growth, the service advisors have had little time to develop more significant relationships with customers. Because of this, UFS has missed out on many add-on sales opportunities.

Therefore, John plans to hire a new sales representative to both call on new customers and develop better relationships with current customers. Cultivating new customers will require cold-calling on potential customers as well as following up on referrals from current customers. Because most companies that have vehicle fleets establish contractual relationships with mechanical service providers, some new customers may take a long time to acquire. That is, the sales representative may have to interact with a potential new customer over an extended period of time until the company's contract with another service provider expires.

Working with current customers will require significant interaction with the service advisors to understand each customer's past history of services and identify opportunities to increase the number and frequency of services provided. Growing business from current customers will also require spending time developing relationships with each customer.

Before he begins recruiting for this position, John must determine how to compensate the new sales representative. He's researched market rates for sales representatives in his industry and has a targeted salary range, but he wants to make sure that the compensation plan provides enough incentive to both secure new sales and spend time developing relationships with current customers.

Questions:

- 8-6. What are the sales objectives for the new sales representative?
- 8-7. What role will the compensation design play in motivating the new sales representative?
- 8-8. What kind of sales incentive plan do you recommend? Why?

MyManagementLab

Go to mymanagementlab.com for Auto-graded writing questions as well as the following

Assisted-graded writing questions:

- 8-9. Compare and contrast merit pay systems and sales compensation.
- 8-10. Briefly discuss designing job-based pay systems (e.g., merit pay, sales incentive pay) and person-focused programs. What considerations arise when making a transition from using a job-based pay system to using pay-for-knowledge?