

Living Well on Commissions



Living on Commissions

Establishing a Commissions Work Plan

How do you know if you are on-track for the year?

How can you tell if you're going to make your month after the first week?

It starts by establishing a work plan.

Far too many sales people rush out each morning determined to improve their incomes without ever having determined what that means, or how they will do it. They earn commissions. They consider themselves successful. But they neglect to build the plan ahead of time to define their success. They have no way of measuring how they are doing along the way.

You are in a field where you have complete control of your income.

But you need to set goals for it....expectations for your earnings from the company.

Just as the company has expectations for you and your territory, you should have expectations of them. What do you intend to earn from the company this year?

Think about it.

You are about to spend countless hours nurturing this line.

You better have an expectation as to what it will generate for you.

Write down how much you'd like to earn over the course of this year.

It is the first step in any planning process.

Annual Income anticipated from the line: _____

What is the value of a Customer?

Once we know how much you want to earn....we can start to evaluate how we'll get there. How much is a customer worth to your business?

There are several ways to estimate this figure.

Average Sale Take the total sales for the territory and divide it by the number of accounts.
This is the average value of a customer in the territory.

Mean Sale Divide the number of accounts in half. Take that number and look up the corresponding account.
Their sales volume is the mean sale (an equal number of accounts larger and smaller).

Typical Product Usage

Work with your sales manager to construct a typical product package and usage volume for a customer. Build a monthly total as well as an annual value. What is it worth?

Perhaps you'll want to use all three of these methods to give you a range for the value of a customer. But this value will be the basis for your projections and work plan.

There is nothing magic about these numbers. Many customers buy much less.

Others lots more. But it does make a reasonable planning figure to decide how we'll grow this business.

For the sake of this example, let's say that the value of one customer to your business will average between \$30,000 and \$100,000.

Projecting Commissions

Now let's see what kind of commission a single customer can generate for you.

1 customer annually = \$30,000 – \$100,000

\$ 30,000

X commission %_____

Commission

\$100,000

X commission %_____

Commission

Put your personal commission in this equation and do the math.

First at the \$30,000 level.

Then again at the \$100,000 level.

That is what you earn from one customer.

Planning Your Customer Base

What was your income goal for the year?

We'll use that figure to decide how many customers you'll need.

\$_____ (annual income goal) / average commission = Target Accounts

Divide that annual income number by the average commission you earned above.

Now you know how many customers you'll need this year to earn the living you want.

Let's do an example to be sure you have this right.

Let's project your earnings at \$100,000 (and I hope that is the minimum you are targeting).

We'll put the commission at 10%.

For the projection, we'll use a customer spending \$100,000 annually, earning you \$10,000.

In this case, to earn \$100,000 yourself, you'll need 10 such accounts.

Ten customers doesn't seem very ambitious for a six figure income!

Using Closing Percentages to Project a Prospect Pool

We're not done yet.

Now we know how many customers you'll need.

But how many prospects does it take to earn a customer?

That depends on your closing percentage.

Of all of the prospects that you call on, what percentage will you sell?

You never sell everybody.

What do you project?

One out of five? One in every ten? Maybe just one in twenty accounts?

Let's use a reasonable 1 in every 10 accounts. A 10% closing rate.

To get 10 customers, you'll need 100 prospects.

$$100 \text{ Prospects} \times 10\% \text{ Closing Rate} = 10 \text{ Customers}$$

You'll get better at this over time.

By setting standards, you will be able to evaluate your progress.

Pretty soon you'll know your actual closing rate.

Sales Calls Per Prospect

But that just tells us prospects....not the number of sales calls!

How many calls do you suppose you'll need to make on those prospects, to get to a closing?

It is going to be a ratio of the number of calls and the period of time.

Can you close a prospect with three calls in one month?

Maybe the time spreads out a bit....to 4 calls in 2 months.

Or will it take 6 months...and maybe 8 calls to create a customer.

You decide.

Let's be conservative. Let's say it is 8 calls over six months.

That's a lot of calls....and a long period of time.

We're selecting that because it is more ambitious than most of the sales people you compete with. Many sales folks give up after 3 or 4 calls and a few months.

Eight calls is a good number.

If you plan to call on 100 prospects 8 times each in six months, that's 800 sales calls

100 Prospects X 8 Sales Calls each = 800 calls

Planning Your Work

If you are going to earn 10 customers this year...you'll need to find 100 prospects and close 1-in-10 within 8 sales calls. That's your plan to earn \$100,000.

All that requires is 3 -4 sales calls per day.

800 calls	12 months
52 weeks	15 - 20 calls per week
	3 - 4 calls per day

Now you know what you need to achieve your salary goals.

In this example, make 3-4 calls per day, and you are on track.

Exceed that - and you are ahead. Fall behind, and you won't make your numbers.

Sounds easy, but eventually you'll have meetings and service interruptions that can throw you off track if you don't know your own requirement!

Remember, you don't need 100 prospects to start.

You're on a six month selling cycle - 8 calls in six months or less.

Let's set a contact schedule of once every two-to-three weeks. At 15 calls per week, you'll need 30-45 prospects that first month, or sales cycle.

So - who are your first 45 prospects? Check your database and choose them!

You'll be ready for additional prospects by adding them to your next 90-Day plan.

Here's the Secret to Sales

Recognize that sales calls are what generate the statistical success.

Statistically, you'll have to make 8 calls to close. And talk to 10 prospects to earn one. Your income, doesn't just come from the customers....it comes from the discipline to make ALL the calls....win or lose.

Realize that your \$100,000 income is earned by EVERY sales call.
So you are actually being paid \$125 per call – **no matter the outcome.**
Because statistically you must receive your quotient of 'no'
before you get to your quotient of 'yes'!

800 calls	12 months
52 weeks	15 calls per week
	3 calls per day

\$100,000 income
45 prospects/cycle
\$125 per sales call – win or lose

Success comes from envisioning a goal and developing a measureable plan to take you there. This guide helps break your annual goal into daily action.

About the Author



D. Ryan Hixenbaugh is a strategic planner involved in Sales, Sales Management and Marketing.

He is a Principal with the Strategic Marketing firm Stratcom that provides hands-on marketing services on an outsource basis.

Through Stratcom, Hixenbaugh has worked extensively in a number of industries including Healthcare, Apparel, Technology, Communications, Airline and Aerospace and Marine Transportation. The company has also supported a large number of non-profit organizations.

He has built and managed several national sales organizations, been involved in all kinds of strange configurations and advised numerous companies on sales strategies and marketing support.

His consumer experience is based on years in the Advertising business with various agencies, including May/Partners, with offices in Seattle and Portland, which he owned and ran.

To book Ryan to run Sales Training, speak at your next event or support your marketing efforts, please contact him at Ryan@RyanHixenbaugh.com