Clinical Laboratory Sales Training, LLC

Lab Sales Compensation

By

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Upper management at commercial laboratories may end up consuming a fair amount of time discussing compensation for its salespeople. The reason is: money talks—and it's powerful. Appropriate compensation is necessary but not solely sufficient in causing desired human behaviors. The sales manager's (or lab manager's) oversight and the lab's strategic objectives also need to roll up into the equation.

Labs that hire full time field personnel typically offer a bifurcated payment approach: base salary plus variable compensation. Both of these segments can be similar or differ significantly by company.

Listed below are common questions that center on this subject. While this paper's purpose is not to recommend a particular comp plan, the questions and responses may be food-for-thought for those that are creating a new payment system or want to re-assess their current one.

What are some common mistakes laboratories make in compensating their sales employees?

Anyone unfamiliar with laboratory sales may not be acquainted with the "Rule of 78." They should be, because it is the most widely used formula for devising a 12-month sales comp plan. Management simply multiplies the expected monthly net revenue (or specific test volume) times 78 to arrive at a twelve-month figure. Starting with the first month (e.g., January), each consecutive month adds the same pre-set dollar figure (or test number). As you move from left to right, the monthly columns grow longer by a factor of one, since the previous month figure rolls over in a consecutive fashion. The Rule of 78 provides a framework to calculate how new business relates against a pre-set expectation at any point during the year.

Another mistake is beginning the monthly sales goal immediately after hiring a field rep. With new hires (especially from outside the industry), it may be more prudent to begin the sales target several months after the rep's start date and then insert a monthly gradient increase up to the desired level.

In conjunction with this, another oversight I've noticed is sales/lab managers may set goals too aggressively within their market. If this happens, field reps may soon become dispirited and insouciant—funneling more time servicing customers or slacking off on the job all together.

On the other side of the aggressive equation, laboratories should not make the compensation plan a cake-walk, either. For example, if the sales rep has a "combo" role (sales and service), and if there is a substantial variable payment for servicing and maintaining current clients, the rep can easily become complacent by focusing on "howdy-and-cupcake" visits with current clients. I know of one real-life situation where it developed into a thorny issue when lab management (after several years) announced a "peddle-to-the-metal/more-new-revenue" initiative. The lab eventually released the representative, but not after paying an above-average base salary and commission for "howdy-and-cupcake" calls. Lesson learned.

Do you feel variable compensation plans should pay for a specific time-period?
In most situations, labs pay a variable rate for a certain time following new account activation—frequently twelve months. I have witnessed some plans that continue payments for two years but the commission percentage is reduced in year two. Paying for specific time periods can depend on the lab's specialty and philosophy. For example, I know one dermatopathology lab that offers a very competitive base salary. For every account the rep activates, the owner pays $2.00 a biopsy for the life of the client. While $2.00 may seem mediocre, the persistent dollar stream—with no calendar endpoint—accrues rather nicely as more clients continue to activate.

What is an example of payout percentage of new business?
Some labs set a graduated scale based on the monthly volume of new business. As an example, a percentage may be 5% for the bottom tier. The next sales level may be 8%, and the top echelon of new business for the month may be 10%. The net revenue associated at these levels varies between companies. However, to give one example, the bottom tier could be $500 to $5,999; the middle tier could be $6,000 to $9,999 and the upper level could be $10,000 or greater. I know of a pathology lab that uses monthly specimen volume criteria instead of dollars. In other cases, a lab may institute a simple two-tier structure: a certain percentage for business that falls below the expected new business goal for the month and a higher percentage if the goal is met or exceeded.

Due to the extra expense and, possibly, the strategic direction, some labs do not pay commission on health fairs and/or nursing homes. Other labs may compensate at a reduced percentage rate.

Is it fair to pay reps a commission if they're not attaining a monthly quota?
Yes, I feel it's fair. This business of laboratory sales is very challenging, and there are certain times in which a field representative will not meet his/her quota in any particular month (or at any point collectively during the year). However, it is psychologically important to reward for any activated business, in spite of the fact it does not meet a certain monthly or yearly watermark.

Should commissions be capped?
I once worked for a lab that instituted a commission cap. I will state unequivocally that capped commissions can breed sales mediocrity—if only from a conceptual standpoint. Even if a representative knows he/she will probably not achieve the capped segment, it produces a psychosomatic "sales pall."

Should labs base their incentive pay on activities in addition to new sales?
I'm not in favor of providing additional pay based on a visit number a sales or service person may have in a certain timeframe. Upper management typically feels they compensate daily activities through base salary. What needs to occur—and this comes through management oversight—equates to an acceptable balance between efficiency (i.e., activities) *and* effectiveness (i.e., new business).

For those field people that are strictly assigned to servicing customers, there should be financial rewards for up-selling activities.

What are your comments about variable comp and upselling activities?
For most labs, upsells are an inherent part of the job and should always be encouraged because it translates to more revenue per client. Some labs separate new accounts from upsells (and pay a greater amount for new accounts) and, yet, others calculate commissions based on collective sales numbers versus the previous year (i.e., no distinction between new and upsell).

There exists two types of up-sells that can be recognized through a commission plan: (1) by a specific test or (2) overall volume.

Those labs that compute upsell business should average the previous three months net revenue (or specific test) *when initially reported by the field person and documented as an upsell*. This establishes the foundation. Beginning with the first month of the upsell, you subtract the current figure from the calculated base figure, arriving at the true upsell number for each month.

Do you advise setting attrition goals and paying a corresponding bonus?
Yes, I do. Losing business is a real-world occurrence, and reps typically put in time and effort to avoid any losses. The definition of a "lost client" remains a lab administration decision. My experience has been when a client's current month's net revenue realizes a fifty percent (50%) or greater decline as compared to the previous three-month's average (client vacation schedules or other variables must be taken into consideration). One methodology is to divide the year into quarterly payouts and set specific lost account financial ranges. As an example: pay a bonus of $800 for the quarter if there was no lost business or up to an average monthly revenue of $2,999; pay $400 from $3,000 - $5,999 average lost revenue and offer no payout if $6,000 or above. The average lost revenue from each account should be applied to the attrition calculation once (i.e., not totaled for the entire quarter).

In client billing situations, what are your thoughts on paying commissions in relation to bad debt?
When receivables reach 120 days old and beyond, any commissions that have been generated from that account should be deducted from future sales commissions. While companies naturally want to avoid Accounts Receivable even at 90 days, labs may, nevertheless, pay commission on these tardy-paying accounts. Going much deeper than that uncoils into a win-lose situation in which the marketer wins and the lab suffers.

You mentioned an attrition bonus. Are there any other sales bonuses laboratories should consider?
There are some companies that recognize a salesperson's business and selling acumen that sell more than $1 million dollars during a calendar year. These labs may pay a one-time bonus for achieving such a lofty figure. It may be in the order of $40,000-$50,000. Some labs combine a one-time payout with an exotic trip destination.

The other bonus consideration involves a quarterly and/or yearly reward. In addition to paying according to the traditional monthly plan, some laboratories compensate using a flat percentage bonus on all new business that exceeds the goal for any given quarter (or for the entire year).

Final Comments:
Commission and bonus plans are intended to conduce to growing a lab's business, maintaining its client base and providing—in some measure—motivation for a salesperson. Additionally, company culture, management practices and strategic goals will also contribute to how field people perform. As such, a compensation plan is part of—not a substitute for—ongoing performance-enriching principles.

Peter Francis is president of ***Clinical Laboratory Sales Training, LLC****, a unique training and development company dedicated to helping laboratories increase their revenues and* *reputation through prepared, professional and productive representatives. He has written over forty articles on the subject of laboratory sales. Visit the company's web site at www.clinlabsales.com for a complete listing of services.*