Jane's Attic

During November 2008, Jane Whitler decided to open a high-end used furniture store. Jane lived in a major metropolitan area in Southwest United States, and part of the growth of the city over the last 35 years was an increasing retired population. Many of the retirees starting to visit the city as snowbirds from the Midwest and Northeast as they neared retirement, then moved to spend their retirement years in the desert Southwest. Many of the first-wave of retirees that moved to this city back in the mid-1970s were now dying. One of the consequences of this aging population was that many estate sales occurred where Jane could purchase fine quality used furniture at very attractive prices. In addition, more and more retirees aged and got tired of the upkeep on the retirement houses they purchased a couple of decades earlier. Increasingly, they were deciding to move into retirement villages, and this triggered sales of their many high-quality home furnishings. By year end 2011, Jane was very pleased with the sales volume of Jane's Attic of nearly $2 million. At the same time, Jane looked back at the last two years and, although sales rose from $650,000 in 2009, she couldn't figure out why she was still losing money. In 2009, she lost $68,000, in 2010 the loss was $31,000, and in 2011 it was down to $20,000. She was determined that 2012 would be profitable. But, she also noticed that sales were beginning to plateau, and thus, she could not expect to easily grow her way out of the problem.

Recognizing that her biggest operating expense was compensation of her 10-person sales force, she decided to consider the possibility of a new sales force compensation plan. The current plan gave each salesperson a $1,500 monthly base salary and an 8 percent commission on sales they generated. Thus, an employee with $200,000 in annual sales would receive 8 percent of $200,000 or $16,000 and also a base of $18,000 or a total of $34,000 annually. On top of this were fringe benefits that averaged 25 percent of compensation. Jane wondered if perhaps she should lower the base salary to perhaps as low as $1,000 monthly and then perhaps increase the commission rate. She asked Ted, her brother, who had spent his entire career in business-to-business sales if she should consider establishing the commission as a percent of gross margin dollars generated on each sale. He felt this was an especially viable option because Jane allowed the salespeople to negotiate the selling price, if the salesperson got her permission. If Jane was not at the store, the salespeople could call her to discuss a price reduction. In fact, recently Jane became concerned that Hector was calling her too often pleading for permission to lower the selling price.

Jane asked John Barnes, her accountant, to prepare some sales statistics that might help her consider different sales compensation plans. The data John prepared is presented in the accompanying exhibit. Jane also wanted to establish some minimum performance goals for her salespeople. John mentioned to her that some of his other retail clients that employed salespeople or order getters versus merely order takers, tried to have each employee generate at least twice and ideally three times their annual compensation and fringe benefits in gross margin dollars. Thus, if a salesperson had total compensation and fringe benefits of $50,000 they needed to generate between $100,000 and $150,000 in gross margin dollars.

Sales Force Performance Data

Salesperson	Average Transaction	Gross Margin Percent	Total Transactions
Joe	$419	48%	378
Hector	$307	40%	412
Sally	$371	46%	329
Amy	$400	43%	401
Jean	$514	47%	395
Mark	$795	44%	412
Jason	$441	48%	470
Irene	$388	42%	401
Wayne	$441	42%	399
Maria	$703	46%	404

Questions

1. *Which of Jane's 10 salespeople are the top two performers and which are the bottom two performers?*
2. *Should Jane lower the base monthly compensation to $1,000 from $1,500? Are there any other changes she should make to the compensation plan?*
3. *What should be the minimal performance that Jane should expect from her salespeople in order for them to retain their jobs? How soon should Jane decide if a salesperson should be retained or terminated?*