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INNOVATION

A Radical Prescription for Sales

by Daniel H. Pink

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Some things in life we know are true. The sun rises in the east and sets in the west. A body in motion will remain in motion unless acted on by an outside force. And the best way to motivate salespeople is by offering them commissions.

But what if we're wrong, at least about that last one? What if paying salespeople commissions is rooted more in tradition than logic? What if it's a practice so cemented into orthodoxy that it's no longer an actual decision? That's what a handful of companies have begun discovering. To the surprise of many, these firms are showing that commissions can sometimes do more harm than good—and that getting rid of them can open a path to higher profits.

Though this may seem counterintuitive, scientific research on human motivation backs it up. For the past 30 years, a group of social scientists around the world—from pioneers like Edward Deci and Richard Ryan, at the University of Rochester, to a new generation of scholars such as Adam Grant, at Wharton—have articulated a more subtle view of what motivates people in a variety of settings, including work.

One of their findings is that the effectiveness of motivators varies with the task. In particular, they have discovered that contingent rewards—I call them "if then" rewards, as in "If you do this, then you get that"—work well with routine tasks social scientists dub "algorithmic." Think stuffing envelopes quickly or turning the same screw the same way on an assembly line. The promise of a reward, especially cash, excites our attention, and we focus narrowly on getting the job done.

However, those same if-then rewards turn out to be far less effective for complex, creative, conceptual endeavors—what psychologists call "heuristic" work. Think inventing a new product or working with a client to tackle a problem neither of you has confronted before. For those projects, you need a broader perspective, which, research shows, can be inhibited by if-then rewards.

That leads us back to sales. In the middle of the last century, selling was fairly simple. Memorize your script, open your sample case a certain way, fire back standard responses to predictable objections—and do it over and over again until the law of averages works in your favor.

Today, though, the transactional aspects of sales are disappearing. When routine functions can be automated, and when customers and prospects often have as much data as the saleswoman herself, the skills that matter most are heuristic: Curating and interpreting information instead of merely dispensing it. Identifying new problems along with solving established ones. Selling insights rather than items.

> Much has changed since the Fuller Brush salesman went door-to-door.

Mitch Little began questioning the received wisdom on sales commissions in the late 1990s, shortly before he became vice president for worldwide sales and applications at Microchip Technology, a large semiconductor company headquartered near Phoenix. He oversaw 400 salespeople whose compensation plan was the industry standard—60% base salary, 40% commissions.

"That made sense 40 years ago, when the Fuller Brush salesman went door-to-door," Little told me. "But the world of business-to-business sales has shifted fundamentally." So in an act of sacrilege for a onetime sales guy, Little killed commissions altogether. He established a new plan in which salespeople received 90% of their compensation in a high base salary, and the other 10% was linked to corporate (rather than individual) measures such as top-line growth, profits, and earnings per share.

The result? Total sales increased. The cost of sales stayed the same. Attrition dropped. Retention rose. And today Microchip, a $6.5 billion public company, still maintains its commission-free 90/10 system—not just for its sales force but for almost everyone who isn't an hourly worker, including the CEO and Little himself. Its alternative compensation scheme is one reason Microchip has long been one of the top-performing companies in the semiconductor industry, ringing up 86 consecutive quarters of profits.

Neil Davidson, the cofounder and co-CEO of Red Gate Software, in Cambridge, England, followed a similar path. In 2009 he eliminated commissions for his sales force, replaced them with healthy base salaries and a generous benefits package, and proceeded to watch sales climb. Last year even a stalwart like GlaxoSmithKline joined the club, scrapping commissions for its fleet of U.S. pharmaceutical reps.

Should every company forswear sales commissions? No. But simply challenging this orthodoxy helps us recognize that selling today is sophisticated, complex work—and that the people doing it therefore require incentives beyond a dangled carrot.

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Daniel H. Pink is the author of four books about the changing world of work. His next book, *To Sell Is Human: The Surprising Truth About Moving Others* (Riverhead), will be published in January 2013.
