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Roush Performance: How to Design a Sales Force Compensation Plan

October 3, 2018: At the headquarters of Roush Performance, which manufactures automotive aftermarket products, Vice President of Marketing Jacqueline Holliday was preparing for a meeting with the President, Joe Thompson, and the head of Global Sales, Taylor Bloor. Several months ago, Thompson had hired Holliday, a former marketing director at SC Johnson (household cleaning chemicals manufacturing company) to bring a new perspective to Roush's business operations. He specifically asked her to find ways to better motivate salespeople, the primary means of Roush's go-to-market strategy. Since its inception, Roush Performance, an engineering-driven company, had concentrated effort on building its engineering technology competency and diversifying its product portfolio to grow sales. Many of its engineers were proud to be on the forefront of technological innovations with the company. In contrast, Roush's marketing and sales divisions had a somewhat passive role. The sales culture was thought to be stagnant, and sales compensation, one of the key elements in motivating salespeople, had remained unchanged over the past 25 years. Thus, at the meeting, Holliday proposed a change in the field sales force compensation scheme to provide salespeople with adequate incentives to increase sales performance at Roush.

Holliday opened the discussion by stating:

> Roush Performance has invested heavily in engineering to develop exclusive designs, top-notch products, and sophisticated customized service. Despite our concerted efforts over the years to achieve high standards of quality and, consequently, build our prestigious reputation, our products are still vying for nationwide attention. Considering that our sales are mainly achieved through personal selling, it is time for us to think outside the box and change our incentive policy for the field sales force to achieve greater sales.

In support of her observation, Holliday enumerated a list of challenges that Roush Performance was facing at that time. First, the past financial records revealed substantial variations in the salespeople's sales revenue. For instance, in 2018, the top two salespeople (out of nine) generated about 43% of the total field sales revenue. In spite of the differences in potential of the salespeople's assigned territories, such a significant inequality in sales seemed problematic. Second, Holliday's investigation on the salesforce revealed signals of sales force complacency. Although automobile dealerships generated about half of the company's total sales, only two or three new accounts had been established each year.

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Furthermore, several dealers had ended ties with the company in recent years. Finally, Roush Performance was facing a substantial shift in market demand. An industry report indicated that the demand for sedans was decreasing, while that for trucks and SUVs was increasing[1]. The company had a leading presence in the market for modified Ford Mustangs and Ford F-150s but had not yet entered the SUV market. Also, in accordance with market trends, Roush Performance would likely need to enter the electric vehicle market sometime in the future.

Holliday expressed her concerns that the existing sales force compensation plan could only continue to aggravate the abovementioned problems. For over 25 years, Roush Performance had paid their salespeople a pure (100%) variable pay with a fixed commission rate on vehicles and parts. Holliday recognized that this plan was simple to operate and easy to understand and that it had the potential to deliver immediate outcomes. However, she also realized that it provided limited incentives for salespeople to acquire new accounts, sell higher-margin products, develop relationships with their dealers to plan for the long run, create strategies for underperforming dealers, and hunt for new markets to expand the company's business.

As a way to make the compensation scheme an effective motivator for the company's salesforce, Holliday first proposed to install a fixed salary to provide some income stability. A fixed salary could also increase morale and enhance salespeople's willingness to engage in long-term relationship-building activities with customers. With regard to the variable component in compensation, Holiday proposed three alternative plans for consideration: 1) commission; 2) quota-bonus; and 3) commission plus quota-bonus.

While Thompson conceded that a change in the incentive program was necessary to better motivate the sales force, he was concerned that such a change could have permanent negative consequences. Thompson had led the company from its inception and built much of the business. He believed it was critical to find a solution that was fair to the salespeople while incenting growth. In addition, he was concerned about the potential trickle effect that such a change would have on employees in Roush's other departments.

Thompson began to contemplate the most suitable compensation plan that would properly empower Roush's salesforce and boost their morale and productivity, consequently improving sales performance at Roush.

Roush Performance

History

Roush Performance, a subsidiary of Roush Enterprises Inc., located in Livonia, Michigan, manufactured and marketed factory-modified performance vehicles and high-end aftermarket performance products. Roush Enterprises, Inc. operated several subsidiaries, including Roush Performance, Roush Industries, Roush CleanTech, and a joint-venture in Nascar, Roush Fenway Racing. (See **Exhibit 1** for a description of Roush Enterprises' subsidiaries.)

In 1976, Jack Roush, a former engineer at Ford Motor Company, founded Jack Roush Performance Engineering to provide engines for Ford-branded racing vehicles. While at Ford, Roush had discovered a passion for drag racing and developed his own team with partner Wayne Gapp. He went on to win many championships in NHRA, IHRA, and AHRA. Roush engineered the parts for his team and decided to begin selling them to the broader motor sports community. In 1988, Roush formed a

NASCAR racing team with celebrated driver Mark Martin and captured multiple championships in the NASCAR Cup series.[2]

In 2007, Roush founded Roush Fenway Racing with sports investor John W. Henry, owner of the Fenway Sports Group that managed the Boston Red Sox, the Liverpool Football Club, and the New England Sports Network. Through the years, the company's racing teams won multiple championships across NASCAR's major series (Monster Energy NASCAR Cup, NASCAR Xfinity, and NASCAR Camping World Truck). Roush was the winningest owner in NASCAR history.

With success in stock car racing, Roush expanded his business from race to street cars and founded Roush Performance in 1995 with the tagline: "Between a road car and a race car is a Roush car."[3] Roush Performance began by manufacturing and selling factory-modified Ford Mustangs, eventually adding the Ford F-series truck to its lineup. Both Mustangs and Ford Trucks were available with upgraded parts on the vehicle, including exhausts, engines, body kits, wheels, suspensions and interiors. The company often produced limited-edition models serialized with a unique badge. Roush also sold more than 1,500 high-performance parts for stock Ford Mustangs and Ford Trucks through local dealers, online retailers, the company website, and warehouse distributors. (See **Exhibit 2** for Roush Performance's product line and **Exhibit 3** for major product's MSRP.)

Roush also pursued opportunities for innovation in more-sustainable fuels. In 2008, Roush expanded into the alternative fuel vehicle market, establishing Roush CleanTech. The company developed propane autogas fueling systems for Ford commercial vehicles and Blue Bird Corporation school buses. Although the majority of U.S. schools used diesel buses because of the higher initial cost of propane buses—$100,000 for a new propane bus vs. $30,000–$40,000 for a diesel bus—school districts increasingly began to acquire propane buses, as they were eco-friendly and had higher fuel efficiency (with significant tax rebates).[4] An internal report suggested that schools could reduce fuel and maintenance costs by $3,000 per bus per year once they shifted to propane.[5] In addition, the 2018 World LP Gas Association Report projected that U.S. schools could hire 23,000 new teachers if all of the nation's diesel school buses were changed to propane.[6]

Current State

In 2017, Roush Performance recorded annual revenues of $55 million, which was expected to increase in 2018. (See **Exhibit 4** for historical revenue of Roush Performance by channel and product type.) Of the sales revenue, around 40% came from vehicle sales, while the rest came from parts. Average gross margins for Mustangs, Trucks, and parts were 38%, 35% and 46%, respectively.

Roush's flagship products were the Ford Mustangs and the Ford F-150s, with various stages indicating the level and degree of modification (see **Exhibit 2**). For performance parts, the flagship products were the Roush Superchargers and Exhaust systems. The company upheld a minimum advertised price (MAP) to reduce the risk of brand dilution with its customer network.

Roush sold Mustangs in three option categories. The Roush Stage 1 Mustang was the base model, priced $5,400 above the base Mustang 2.3L chassis, which was typically $31,000. The Roush Stage 2 Mustang was built from the 5.0L V8 Ford Mustang and was priced $10,200 above the base Mustang retail price. As the vehicles were customizable, the prices varied with different option selections, such as suspension, wheel and tire packages, and exterior appearance packages. The Roush Stage 3 Mustang was the most advanced performance vehicle, priced at $22,900 plus the price of the vehicle. The Stage 3's power and performance came from the engine upgrades and the installation of a Roush supercharger, increasing the power of the vehicle to 710 horsepower.

Roush trucks followed a similar product strategy. The Ford F-150 with the Roush Sport base package started at $7,300 plus the vehicle price. It included an exhaust system and exterior modifications, including a Roush front grille and bumper, 22" wheels, and custom wheels and tires. Roush offered increasing option packages on the Roush F-150, Roush Raptor, and Roush Super Duty; for these vehicles, the base price, excluding the vehicle price, started at $13,450, $13,500, and $13,880, respectively. The packages included various upgrades to the suspension systems, wheels and tires, front-end improvements and Roush's signature graphics. The limited-edition Roush F-150 Nitemare, which sold for $16,999 excluding the base vehicle price, was positioned as a street racing truck and included the installation of a Roush supercharger to increase the truck's capability to 650 horsepower. The premium Roush F-150 SC, offered off-road performance and many custom enhancements to the exterior and interior of the vehicle, including the addition of a supercharger, performance suspension, wheels and tires, and custom Roush embroidered leather on the interior seats. The Roush F-150 SC was offered at $22,999 in addition to the base vehicle price.

Distribution of the Roush vehicle portfolio was exclusive through the Ford dealership network. Roush sold its modified vehicles directly to the Ford dealers, who then sold directly to consumers. Increasingly, consumers were shopping for vehicles online and could purchase a car or truck from a dealer out of state. In this case, the dealer would often ship the vehicle directly to the consumer's home, handling all the paperwork electronically. Similar to the car dealership model for standard Ford offerings, Roush authorized dealers to trade vehicles between them if they were in need of a particular type of chassis or if they needed to move inventory off of their lots. As of 2018, Roush had about 200 authorized vehicle dealers across the U.S. and Canada in a network of 3,000 Ford and Lincoln dealerships.

Although, historically, the Roush Mustang had generated 60–75% of Roush's total vehicle revenue, the trend had recently changed with shifting consumer preferences. In 2017, the demand for Roush Mustangs decreased by 25%, whereas the demand for the Ford F-150s increased by 79% (see **Exhibit 4**).

These trends were a result of a change in the underlying demand for the base vehicles. According to Ford's 2017 financial report, Ford F-series sales totaled nearly 900,000 trucks—an increase of 9.3% over the previous year's sales. In contrast, the sales of Mustangs decreased by more than 20%.[7] Hence, Roush realigned its product and sales strategy toward the modified trucks segment to meet consumer demand.

Roush also sold a robust portfolio of performance parts primarily for Mustangs and Ford Trucks in order to serve a different segment of the market. Unlike vehicle sales, where everything was completed at the time of the sale, parts buyers modified their vehicles in stages, often installing the upgrades themselves. Roush sold performance parts across various categories, including exhausts, suspensions, cold air intakes, wheels and tires and superchargers. Pricing for these products varied widely, from $409 to $1,149 to $7,699 for a cold air kit, cat-back exhaust and supercharger, respectively.

Unlike vehicle distribution, parts were sold across many channels. The primary channels for parts distribution were through the Ford dealerships and through online direct-to-consumer sales. Ford dealerships often sold parts as an add-on to a new vehicle purchase, whereas the online channel often sold to consumers with older model year vehicles who were looking to upgrade the performance of their cars and trucks.

Competition

Roush Performance competed directly with other performance and after-market products companies in the vehicle and parts segments. Major vehicle competitors included Shelby American, Saleen, Hennessy, Tuscany and RTR; Shelby, Saleen, and Roush had historically been the three major Mustang after-market modification companies in the U.S.[8] The flagship Mustangs for Roush, Saleen, and Shelby were the Roush Stage 3, the Saleen S302 Black Label, and the Shelby Super Snake, respectively.

Similar to Roush, Shelby American produced high-performance parts and modified cars, including Ford Mustangs and F-150s. However, Shelby was comparatively more focused on vintage and high-end cars, such as the Mustang GT 500 and the Shelby Cobra. It recorded about $30 million in annual revenues.[9] Shelby pursed a scarcity strategy by limiting the volume of all its models in order to keep its brand exclusive. Unlike Roush, Shelby was not available at Ford dealerships. Instead, cars were sent to Shelby's upfitting facility in Las Vegas to modify the vehicles once they were purchased.

Saleen, a Corona, California-based brand, was founded in 1983 by Steven Saleen, a former professional race car driver. Saleen sold various Ford tuned vehicles and parts, including the S302 Black Label and Ford F-150s. Saleen also manufactured its own high-performance sports car, S1, and produced a modified Tesla S.[10] The company pursued various marketing efforts, such as donating a 730-horsepower Saleen S302 Mustang police car to a California police department.[11] Saleen recently entered the performance truck segment with two Ford F150-based trucks, the Sportruck and the Sportruck XR. Saleen offered an online-purchase option through its website. Consumers could select options to configure the vehicle online, submitting an order with a down payment, which started the manufacturing process.

Tuscany and Hennessey were smaller specialty vehicle manufacturers using both Ford and GM cars. Similar to Roush, they added performance content to the base truck and sold to Ford dealers, where a consumer could purchase their vehicles. Tuscany offered three F-series upgraded trucks, the FTX, Black Ops and Tonka, with packaged prices above the base vehicle price. Tuscany offered exterior upgrades focused on suspension, wheels and tires, body styling and lighting. Hennessey modified both Mustangs and Trucks with supercharged engine packages and upgrades to exhausts, wheels and tires, and graphics.

After-market parts was a highly fragmented business with many competitors. Unlike Roush, most companies focused on one area of performance, such as exhausts, intakes, wheels and tires, spoilers or interiors. Companies such as Flowmaster and Magnaflow focused on the exhaust space. K&N and Steeda were the market leaders in cold air kits. Supercharges, the largest by revenue in the parts segment, was dominated by Roush and Whipple. Authorized Ford dealerships would often carry one or two brands in their parts department for consumers to choose from. Consumers were increasingly shifting their purchases online to retailers focused on Ford offerings, such as AmericanMuscle.com, CJPonyParts.com, and BlueOvalindustries.com. Also popular with consumers were online retailers (including Summit Racing, JEGS and Buckeye Performance) with corresponding print catalogs that offered parts across all vehicle makers.

The Sales Force at Roush Performance

As of October 2018, Roush Performance had nine regional field sales representatives (referred to as regional sales managers, or RSMs, within the company) covering approximately 200 dealers located across the U.S. and Canada. Most RSMs had a steadfast commitment to the company, as evidenced by the high retention of long-tenured employees with a profound knowledge of company products. Within the assigned geographic territory, each RSM was responsible for managing sales at existing accounts (dealerships), hunting for new accounts, ensuring product delivery, and collaboratively performing marketing activities with the dealers (territory alignment is shown in **Exhibit 5**).

A typical Monday morning for an RSM began with planning the weekly travel schedule, updating market information, contacting dealers, checking dealer inventory and sell-thru, and preparing sales toolkits, such as product catalogs and point-of-sale materials. As the dealers were widely distributed, RSMs visited five to ten dealerships per week, most of the time requiring overnight travel. Each week, every RSM participated in a total-team conference call, hosted by Bloor (head of Global Sales), to review and discuss different strategies and opportunities across products, accounts, and territories. RSMs also received quarterly sales training at company headquarters. The training agenda typically included a review of quarterly sales and growth figures, as well as consultation on new product and market information, best sales practices, and strategies for market penetration.

In general, the sales process for vehicles took an average of six months. First, the RSM negotiated a pre-order from a dealership, typically spending a month to book the deal. Afterwards, Roush confirmed the actual orders from the dealers and purchased the base vehicles from Ford. Then, the base vehicles from Ford were delivered to the company within two weeks. Roush spent the next two to three weeks modifying the vehicles in its factory in Livonia, Michigan. Once the factory modification was completed, Roush issued an invoice and delivered the vehicles to the dealers. The sales cycle was deemed complete once the Ford dealers displayed Roush vehicles in their shops.

The sales process for parts was a bit different and less complicated to execute. RSMs worked with the parts and service department, a different organization within a dealership, to create a parts portfolio plan. Dealerships did not need to take both vehicles and parts, as some dealerships specialized in post-sales upgrades to their customers and would purchase only parts from Roush. About 10% of dealerships purchased only parts. In most cases, the RSM would negotiate with the Parts Manager and submit an order to the Roush Performance operations team. This would trigger a shipment from the Roush warehouse, arriving at the dealership within three to five business days. Parts Managers could easily re-order online by sending an email to the sales support team once they had set up an account.

Issues

Roush's RSMs were compensated based on 100% variable pay. They received a monthly commission proportionate to their sales by product types—4% of revenue on vehicle sales and 2.5% on parts sales. Additionally, the company paid a monthly lump-sum bonus based on the number of vehicles sold. The company also awarded an extra $10,000 at the end of the fiscal year for the top-performing RSM. (See **Exhibit 6** for the compensation structure and **Exhibit 7** for compensation by RSM).

Most senior RSMs did not seem to have any complaints about the current compensation plan. They were making a reasonable amount of income (as **Exhibit 7** illustrates) and were comfortable with the 'no sales, no pay' approach to compensation. They mostly enjoyed the freedom that a field sales job offers of 'do what they want, when they want to do it.' RSMs treated their territories almost like a small business within a larger company, having preferred dealer accounts and strong long-standing relationships to make sales happen. In fact, Roush allocated a promotions fund (up to $5,000), giving RSMs the ability to promote products in their respective local markets (see **Exhibit 7** for promotions funds by RSM).

In contrast, junior RSMs were uncomfortable with the 100% variable pay structure. As expected, they had to cope with the stress and strains of the job in establishing their territories. On top of the normal pressure to perform, they also had to worry about their personal livelihoods. Although junior RSMs were perfectly competent and demonstrated potential when they joined Roush, their concern was that they might not receive satisfactory pay during their initial years. Many seemed disappointed by their insufficient paychecks.

Recently, Roush hired a new RSM who quit after only eight weeks because of the lack of performance and, thus, pay. This incident led Holliday and Bloor to look more deeply into the problems associated with the sales force. While the pure variable-pay structure created some positive stimuli, clearly there were some downsides as well.

Holliday had a series of meetings with Bloor and several RSMs to learn about and discuss the challenges that salespeople face in the field. She also went on several field visits, accompanied by RSMs, to get more detailed perspectives on sales processes and procedures.

The investigation revealed several problems. Although many RSMs recognized the need to develop long-term relationships with dealers, they often undervalued the importance. Some RSMs complained that such non-sales-related efforts (including but not limited to maintaining goodwill with dealers; training dealers to better inform consumers about Roush's products; going to weekend car shows to entice new customers; and helping dealers manage their inventories) were beyond their job descriptions. In addition, some RSMs aggressively pushed their dealers to order unnecessary products in order to increase monthly revenues. Consequently, the attrition rate of dealers was continuously increasing.

Dealer attrition was bad news for Roush. A customer survey report indicated that 90% of current Roush owners encountered the Roush brand for the first time at a Ford dealership. Furthermore, the report revealed that the majority of customers who purchased new vehicles relied only on the dealership of purchase to install Roush parts in order to ensure that the installation was done properly.

Therefore, if customers could not find and recognize Roush at the moment of vehicle purchase, Roush would lose most of its chances to increase sales coverage and growth. Thus, although a deeper understanding of both dealers and customer needs was vital to success, many RSMs were unable to see a payoff in investing their time to develop new dealers. The past record also indicated that few RSMs showed an interest in attending activation events and vigorously sought potential new dealer accounts. Most RSMs found that it was more productive to increase throughput at existing dealers. Consequently, relatively few new accounts had been established over the years, and without the hands-on training from an RSM, the staff at the dealership struggled to make significant progress selling Roush Performance. As a result, these dealerships sold only a handful of vehicles every year. Holliday worried that Roush's salespeople were becoming increasingly short-sighted and complacent.

Roush had an inside sales team that primarily took inbound calls (telephone orders of parts from customers and dealers). The inside sales team consisted of four individuals who received a fixed salary, an average of $35,800. Roush was in the process of developing business development reps (BDRs) that would work on outbound calls and follow up on new dealer leads. The roles of both teams were somewhat duplicated and, thus, conflicted with those of the field sales force.

Other Departments at Roush

Roush Performance had about 50 office employees. The largest department was engineering, with ten people. Engineers were the brains of the performance brand, and their expertise was relatively unique. The team had one department manager, three senior engineers and six staff engineers. Their salaries were fixed, averaging $95,000 per year. Each engineer allocated his time to vehicle and parts programs, up to 50 hours per week. Manager-level engineers received discretionary bonuses, up to $10,000 depending on company performance. To keep projects on track, Roush employed three program managers who were responsible for keeping timelines and ensuring that teams executed programs on time. Program managers were salaried employees making, on average, $75,000 per year, with bonus potential up to $5,000 depending on company performance.

The Marketing Department under Holliday totaled seven people across multiple disciplines. Two employees focused on brand and product strategy, two on digital and social media, two on dealer relations, marketing content and support, and one on customer (dealer) and end-consumer research. All marketing employees were salaried, with an average compensation of $58,000. Marketing employees were eligible for a bonus up to $5,000.

The vehicle operations team totaled ten people, whose responsibilities ranged from supply planning to manufacturing to scheduling vehicle builds. The vehicle support team worked directly with Ford to determine quantities and timing for vehicles to be built for Roush to upfit. The planning team worked closely with sales and marketing to determine the forecast for both vehicles and parts to ensure that the right product was at the manufacturing facility on time. The vehicle scheduling team worked with the planning team to schedule the manufacturing dates and with the shipment haulers to pick up completed vehicles from Roush to deliver to dealerships. The vehicle operations team was salaried, earning, on average, $52,000 per year.

To ensure dealer and consumer satisfaction, Roush employed its own in-house customer service and warranty team. The team of five fielded calls from dealers and consumers alike to answer any questions they might have. Known as the Customer Success Team, they were led by a department manager and had four hourly staff employees who were well trained in the portfolio of Roush parts and vehicles. Staff employees earned, on average, $21.50/hour.

Roush Performance also had salaried support functions in finance, legal, human resources, quality, and administrative support. Each function had one to two people and they were not eligible for performance bonuses.

Alternative Compensation Plans

Year after year, Thompson (President) had concerns over the 100% pure variable pay compensation system. However, at the same time, he wondered what a successful alternative structure would look like. The current system, with its flaws, had been imbedded within the culture of the sales force for the past 25 years. As the leader that the team trusted and followed for many years, he worried that any radical changes in the compensation plan might lead to unintended negative consequences, such as a decrease in effort and morale or confusion and distraction among the salespeople. Thompson began ruminating on Holliday's proposals to find the best suitable plan for the salesforce at Roush Performance.

Base Salary Plus Commission

Under this plan, Roush's salespeople would receive a fixed base salary plus a lower commission on sales. Holliday (VP of Marketing) believed that this plan would strengthen the benefits and overcome the drawbacks of the current pure variable pay plan. The base salary would ensure salespeople to cover their living expenses, whereas commission pay would constantly motivate them to increase their efforts in achieving greater sales.

Bloor (head of Global Sales) agreed with the idea of providing the salesforce with income stability. He additionally pointed out that competitors' salespeople, as well as those at Roush CleanTech, the alternative fuel vehicle manufacturer under Roush Enterprises, received a base salary plus an annual quota-bonus. Bloor acknowledged that the sales process at CleanTech required a distinct, more consultative sales approach with a longer sales cycle, but he believed that the difference in compensation structure within the two organizations led to unnecessary tension between the two sales organizations. This also possibly resulted in a less collaborative work environment.

Holliday recognized that the key to the success of this plan was finding the right balance between the base salary and the commissions. As a starting point, Holiday proposed a base annual salary of $20,000, with an increase of $500 for a year of tenure within the company. In this plan, Roush's fixed salary would provide income stability above the minimum wage,[a] whereas variable pay on commissions would present additional incentives for extra effort. She did not want salespeople to be recognized for tenure *too* much, as, in a selling environment, sales output is what should be emphasized. To keep total compensation relatively constant and revenue neutral for Roush, a decrease in the commission rate for both vehicles and parts was necessary. Still, the ratio between fixed versus variable pay remained relatively low (projected to be 17% fixed and 83% variable pay; see **Exhibit 8a** and **Exhibit 8b**).

Holliday proposed another plan that involved a much steeper increase in fixed pay to a base annual salary of $50,000, with an increase of $500 per year. This was in line with the average salary of a B2B salesperson in the U.S.[b] Again, the commission rates were changed accordingly to keep total compensation intact. Also, a plan to combine the two different commission rates into one was suggested to simplify the compensation structure. Holliday conducted a simulation study with the realized 2018 sales data to estimate salespeople's change in total pay across the proposed plans (see **Exhibit 8c** and **Exhibit 8d**). She conducted the simulation study, absent of data from three regions (Lone Star, Eastern and Western Canada) that were underdeveloped and were covered by RSMs who had been with the company for less than a year. The results showed that most RSMs would receive higher pay with only marginal changes in total sales force compensation. However, Thompson noticed that, across all simulation results, some people's pay would actually decrease. Thompson also realized that the fixed salary would be merely a function of tenure and, thus, would not take territory characteristics into account. While Thompson agreed that a fixed salary would provide income stability that could increase morale and that might boost salespeople's willingness to engage in long-term relationship-building activities, he worried that a higher fixed salary might just provoke salespeople to become even more complacent and to shirk. Finally, based on the simulation results that Holliday presented, Thompson realized that the high-performing salespeople would be hurt the most with a change in compensation. Hence, he was concerned that a compensation plan with a smaller variable

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[a] The minimum wage in Michigan was $9.25 an hour in 2018 and, thus, totaled $19,240 for full-time workers. (https://money.cnn.com/2017/12/29/news/economy/2018-minimum-wage-increases/index.html).

[b] Glassdoor.com, jobs and career searching community, reported that the national average salary for a B2B Sales job was $55,729 in the United States (https://www.glassdoor.com/Salaries/b2b-sales-consultant-salary-SRCH_KO0,20.htm).

component would decrease the motivation of the high-performing star RSMs, who believed that they had earned the right to have the high income that they were currently earning.

Base Salary Plus Quota-Bonus Plan

The quota-bonus plan would allow Roush to award its salespeople a lump-sum bonus when they achieved a preset quota. Holliday liked the idea of giving salespeople a quota because it provided them with a clear target to aim for. She believed that quotas provided salespeople with more ambitious goals and that with a large enough bonus (for achieving quota), a quota-bonus compensation plan would motivate salespeople to put in extra effort that they might not have exerted without quotas.

However, Bloor pointed out that a quota-bonus plan could have unintended consequences and actually decrease overall performance. He worried that this plan might induce salespeople to merely manipulate the timing of sales. For instance, if a salesperson had no chance of meeting quota in a period, he or she could ask dealers to book sales in advance—in other words, to pull prospective sales from the future to artificially meet quota. Similarly, a salesperson who had already achieved quota in a period could push that period's sales to the next period to get a head start on his or her future quota. To prevent such timing games, Bloor would have to monitor each transaction carefully, which would take away time that he could spend on other management activities, such as resource planning, new market development and field coaching.

Thompson recognized that setting up a challenging yet tangible quota for each salesperson seemed crucial to the success of a quota-based compensation plan. Holliday proposed that a salesperson's quota should vary by the sales mix within the territory. She suggested the following approach in setting and updating quotas. (See **Exhibit 9** for an example of a quota-setting process.)

First, market potential would be computed based on industry forecasts (from outside organizations) and Roush's market share goal by area. For example, if industry forecasts predicted \$10 million in sales of aftermarket automobiles in a particular area, and Roush's market share goal was 20% in that area, the market potential was determined as \$2 million (=\$10 million × 20%). A similar procedure would compute the market potential for aftermarket parts.

Second, category specific quotas would be computed by taking the weighted combination of the average of the past two-year realized sales and market potential by product category. Finally, the full quotas are computed by summing over the category quotas for each salesperson. Because, only a part of the quota-updating algorithm involved past sales, Holiday believed that it would mitigate salespeople's concerns that current hard work would lead to larger future quotas.

Although appointing different quotas based on territory and market potential seemed reasonable to management, Thompson worried that salespeople in big markets might deem larger quotas (compared to the quotas in smaller markets) as unfair. Senior salespeople in large markets believed that they had established these markets and should not be penalized for past hard work. Several other questions remained: What should be the frequency of quotas? How often should the company assess and update quotas? What should be the bonus amount for achieving quota?

Base Salary Plus Commission and Quota-Bonus Plan

The third proposal involved a combination of salary, commission and a quota-bonus scheme. Holliday stated, "Why don't we get the best of both worlds by combining the two plans?" Bloor strongly disagreed with this proposal because it seemed overly complicated and costly to administer. Bloor insisted:

> Our traditional model is simple: salespeople get paid in proportion to the sales that they make. Trying to change the compensation plan without considering their difficulties is like putting the cart before the horse. I want my salespeople to have a clear vision of how to earn their money. Otherwise, they will not be able to focus on selling.

Thompson also wondered whether Roush should maintain the other, smaller components of compensation (the monthly bonus for number of vehicles sold and the annual contest bonus for the best-performing salesperson).

Decisions

Thompson intervened in the discussion and stated, "Okay, let's go back to why we started this conversation. Is there any way that we could retain our current model but also solve our problems?" Holliday insisted:

> Our problem is that we only have two components that determine our salesforce's paycheck: vehicles and parts. We could think about varying our commission incentives such as by account type (existing vs. new accounts), product categories, order frequency, sales opportunity, conversion rate, growth rate over the prior year, or even by on-time delivery to the dealers. Moreover, we have overlooked the importance of a subjective assessment considering the dealer's satisfaction, customer demand, and market competition. We need a more systematic approach to better motivate our salespeople.

Thompson remained undecided and felt hesitant to change the company's salesforce compensation structure. He recognized that drastic changes to the compensation plan might lead to uncomfortable working environments for the salespeople, possibly resulting in the company losing valuable assets who had worked to develop important relationships and had been dedicated to the company for many years. He recognized that the new plan should also be simple and fair to all salespeople. However, he worried that even a mere tweak in the current scheme would only increase complaints from the salesforce without getting any positive outcomes.

Aside from compensation, Thompson wondered whether he should increase the RSM's promotion funds to give salespeople more discretion in promoting products, suitable for their local markets.

Exhibit 1 Roush Enterprises' Subsidiary Companies

Roush Industries	Roush Performance	Roush CleanTech	Roush Fenway Racing
			
Designing, Engineering, and Manufacturing the Products for Aerospace, Defense, and Entertainment Industries	Producing Aftermarket Automotive Parts and Modified Vehicles	Manufacturing Propane Fueled Delivery Trucks and School Buses	A Motorsports Platform Company Specialized in Car Racing

Source: Company website.

Exhibit 2 Roush Performance's Product Line

Vehicles: Mustangs

Roush Stage 1 Mustang

Roush Stage 2 Mustang

Roush Stage 3 Mustang

Vehicles: Trucks

Roush F-150 Sport

Roush F-150

Roush Raptor

Roush Super Duty

Roush Nitemare

Roush F-150 SC

Selected Parts Lineup: Mustang

Roush Mustang Supercharger

Roush Mustang Active Exhaust Kit

Roush Mustang Cat-back Exhaust

Roush Mustang Axle-back Exhaust

Roush Mustang Cold Air Kit

Selected Parts Lineup: F-150

Roush F-150 Supercharger

Roush F-150 Performance Suspension

Roush F-150 Cat-back Active Exhaust

Roush F-150 Raptor Cat-back Exhaust

Roush F-150 Cold Air Kit

Source: Company documents.

Exhibit 3 Major Products' MSRP

Products	MSRP (excluding base vehicle price)
Mustangs	
Stage 1	$5,400
Stage 2	10,200
Stage 3	22,900
Trucks	
F-150 Sport	$7,300
F-150	13,450
Raptor	13,500
Super Duty F-250	13,880
F-150 Nitemare	16,999
F-150 SC	22,999
Parts	
Mustang Supercharger	$7,699
Mustang Active Exhaust	2,699
Mustang Cat-back Exhaust	1,149
Mustang Axle-back Exhaust	675
Mustang Cold Air Kit	409
F150 Supercharger	7,799
F150 Performance Suspension	6,999
F150 Cat-Back Active Exhaust	1,899
F150 Raptor Cat-Back Exhaust	1,299
F150 Cold Air Kit	419

Source: Company documents.

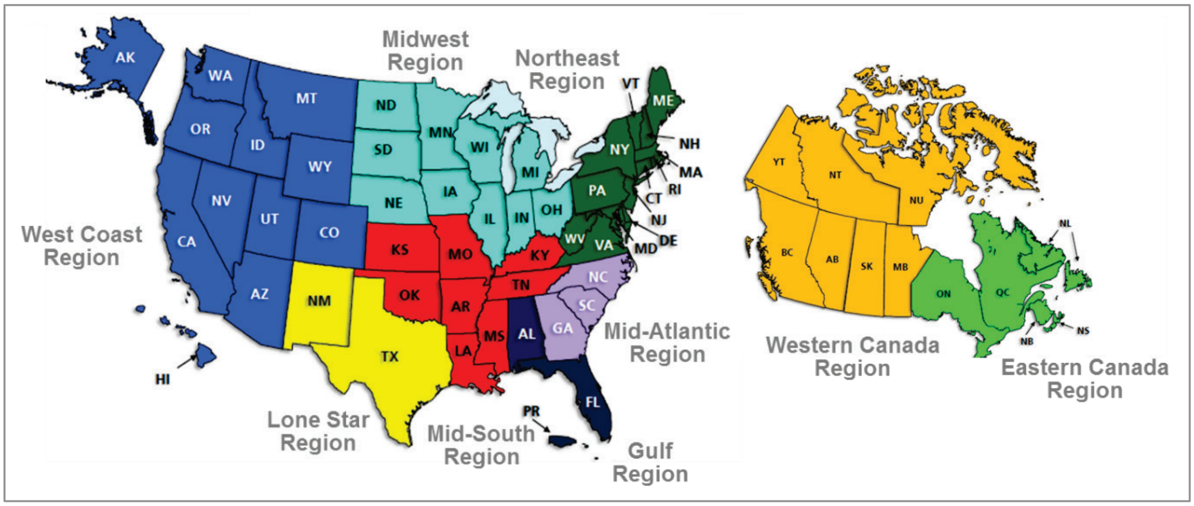
Exhibit 4 Historical Revenue by Channel and Product Type

	2016	2017	2018	Percentage Change 2017 Versus 2016	Percentage Change 2018 Versus 2017
Revenues by Channel					
Dealership	$25,520,000	$29,880,000	$27,170,000	17%	-9%
Retail	3,540,000	3,160,000	2,460,000	-11%	-22%
Special Markets	6,060,000	7,130,000	4,490,000	18%	-37%
Others	15,780,000	15,730,000	22,880,000	-0.3%	45%
Revenues by Product type					
Mustangs	11,800,000	8,800,000	6,600,000	-25%	-25%
Trucks	7,700,000	13,800,000	19,300,000	79%	40%
Parts	31,400,000	33,300,000	31,100,000	6%	-7%
Total Revenue	$50,900,000	$55,900,000	$57,000,000		

Source: Company documents.

Note: 2018 figures are expected projections as of October 2018.

Exhibit 5 Territory Alignment (2018)



Source: Company documents.

Exhibit 6 RSM's Monthly Compensation Structure (2018)

	Commission rate	Lump-sum Bonus
Vehicles	4.0%	
20–24 units		$500
25–29		750
30–34		1,000
35–39		1,250
40+		1,500
Parts	2.5%	

Source: Company documents.

Note: In addition to monthly compensation, the top-performing RSM received an annual bonus of $10,000.

Exhibit 7 RSM's Territory, Work Experience, Sales, and Compensation (2018)

RSM	Assigned Territory	Tenure (yrs)	Parts Sales	Vehicles Sales	Total Revenue	Promotions Fund	Commission	Lump-sum Bonus	Total Compensation
AJ Stewart	Mid-Atlantic	2	$1,164,000	$2,843,000	$4,007,000	$3,000	$142,820	$4,750	$147,570
Thomas Bennett	Gulf	3	900,000	2,254,000	3,154,000	3,000	112,660	3,500	116,160
Anderson Wood	Western Canada	1	653,000	152,000	805,000	2,000	22,405	0	22,405
Alex White	Mid-South	8	383,000	2,830,000	3,213,000	3,000	122,775	6,250	129,025
Charles Coleman	Northeast	19	582,000	1,850,000	2,432,000	3,000	88,550	2,000	90,550
Chris Johnson	Midwest	7	905,000	5,073,000	5,978,000	3,250	225,545	11,000	236,545
Smith Patterson	West Coast	8	1,697,000	3,189,000	4,886,000	3,250	169,985	8,500	178,485
Damian Torres	Eastern Canada	1	354,000	0	354,000	2,000	8,850	0	8,850
Michael Sanders	Lone Star	1	134,000	127,000	261,000	3,250	8,430	0	8,430

Source: Company documents.

Exhibit 8a Compensation Projection Using 2018 Realized Sales: Common Commission Rate for Vehicle and Parts at 3.2%

RSM	Assigned Territory	Tenure (yrs)	2018 Compensation	Projected Compensation			Difference	Fix (%)	Variable (%)
			Commission-Only	Base Salary	Commission	Total			
AJ Stewart	Mid-Atlantic	2	$147,570	$21,000	$128,224	$149,224	$1,654	14%	86%
Thomas Bennett	Gulf	3	116,160	21,500	100,928	122,428	6,268	18%	82%
Alex White	Mid-South	8	129,025	24,000	102,816	126,816	-2,209	19%	81%
Charles Coleman	Northeast	19	90,550	29,500	77,824	107,324	16,774	27%	73%
Chris Johnson	Midwest	7	236,545	23,500	191,296	214,796	-21,749	11%	89%
Smith Patterson	West Coast	8	178,485	24,000	156,352	180,352	1,867	13%	87%
Total			$898,335	$143,500	$757,440	$900,940	$2,605		
Average			$149,723	$23,917	$126,240	$150,157	$434	17%	83%

Exhibit 8b Compensation Projection Using 2018 Realized Sales: Vehicle Commission Rate at 3.6%, Parts Commission Rate at 2.1%

RSM	Assigned Territory	Tenure (yrs)	2018 Compensation	Projected Compensation			Difference	Fix (%)	Variable (%)
			Commission-Only	Base Salary	Commission	Total			
AJ Stewart	Mid-Atlantic	2	$147,570	$21,000	$126,792	$147,792	$222	14%	86%
Thomas Bennett	Gulf	3	116,160	21,500	100,044	121,544	5,384	18%	82%
Alex White	Mid-South	8	129,025	24,000	109,923	133,923	4,898	18%	82%
Charles Coleman	Northeast	19	90,550	29,500	78,822	108,322	17,772	27%	73%
Chris Johnson	Midwest	7	236,545	23,500	201,633	225,133	-11,412	10%	90%
Smith Patterson	West Coast	8	178,485	24,000	150,441	174,441	-4,044	14%	86%
Total			$898,335	$143,500	$767,655	$911,155	$12,820		
Average			$149,723	$23,917	$127,943	$151,859	$2,137	17%	83%

Exhibit 8c Compensation Projection Using 2018 Realized Sales: Common Commission Rate for Vehicle and Parts at 2.5%

RSM	Assigned Territory	Tenure (yrs)	2018 Compensation	Projected Compensation			Difference	Fix (%)	Variable (%)
			Commission-Only	Base Salary	Commission	Total			
AJ Stewart	Mid-Atlantic	2	$147,570	$51,000	$100,175	$151,175	$3,605	34%	66%
Thomas Bennett	Gulf	3	116,160	51,500	78,850	130,350	14,190	40%	60%
Alex White	Mid-South	8	129,025	54,000	80,325	134,325	5,300	40%	60%
Charles Coleman	Northeast	19	90,550	59,500	60,800	120,300	29,750	49%	51%
Chris Johnson	Midwest	7	236,545	53,500	149,450	202,950	-33,595	26%	74%
Smith Patterson	West Coast	8	178,485	54,000	122,150	176,150	-2,335	31%	69%
Total			$898,335	$323,500	$591,750	$915,250	$16,915		
Average			$149,723	$53,917	$98,625	$152,542	$2,819	37%	63%

Exhibit 8d Compensation Projection Using 2018 Realized Sales: Vehicle's Commission Rate at 2.8% and Parts at 1.3%

RSM	Assigned Territory	Tenure (yrs)	2018 Compensation	Projected Compensation			Difference	Fix (%)	Variable (%)
			Commission-Only	Base Salary	Commission	Total			
AJ Stewart	Mid-Atlantic	2	$147,570	$51,000	$94,736	$145,736	-$1,834	35%	65%
Thomas Bennett	Gulf	3	116,160	51,500	74,812	126,312	10,152	41%	59%
Alex White	Mid-South	8	129,025	54,000	84,219	138,219	9,194	39%	61%
Charles Coleman	Northeast	19	90,550	59,500	59,366	118,866	28,316	50%	50%
Chris Johnson	Midwest	7	236,545	53,500	153,809	207,309	-29,236	26%	74%
Smith Patterson	West Coast	8	178,485	54,000	111,353	165,353	-13,132	33%	67%
Total			$898,335	$323,500	$578,295	$901,795	$3,460		
Average			$149,723	$53,917	$96,383	$150,299	$577	37%	63%

Source: Company documents.

Exhibit 9 Example of a Quota-Setting Process for a Specific RSM

Product Category	Average Sales	Market Potential	Sales Quota
Vehicles	$2,070,000	$2,179,000	$2,124,500
Parts	651,000	841,000	746,000
Total quota			$2,870,500

Source: Company documents.

Note: Average past two-year sales (50%) and company's market forecast (50%) were used to set the sales quota. For example, vehicles sales quota: (2,070,000×0.5) + (2,179,000×0.5) = $2,124,500. The market potential was computed based on industry forecasts (from outside organizations) and Roush's market share goals.

Endnotes

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