



Ask Inc.

Canning commissions; granting equity to subcontractors.

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QI'd like to give my salespeople salaries instead of commissions to foster teamwork, but my partner doesn't want to make the switch. Can you suggest a compromise?

Michael Santorelli, CEO
Dogmatic, Los Angeles

It's no surprise that you and your partner are at odds: There are few topics that polarize business owners quite like the sales-commission-versus-salary debate. (See "[The Sales Commission Dilemma](#)," by Norm Brodsky, May 2003.) Take emotion out of the equation by reminding your partner that you want what's best for the company, suggests Francie Dalton, founder of Dalton Alliances, a consulting firm in Columbia, Maryland. "Create the framework of a discussion rather than forcing the issue down your partner's throat," Dalton says. Ease your partner into it by suggesting a three-month trial. Or, if that doesn't work, find a middle ground that will appeal to both of you.

One solution is offering sales staffers equal slices of a pie you challenge them to enlarge. Jim Lippie, CEO of Thrive Networks, an IT consulting outfit in Concord, Massachusetts, hoped to foster teamwork by replacing commissions with salaries but worried about the toll on motivation. So he created a quarterly commissions pool in which his six salespeople share equally. About a third of each member's compensation is tied to team performance, and the rest is salary. "We've become much better at sharing information while spreading around both the incentives and the risks," Lippie says.

Similarly, Bige Doruk wants her salespeople comfortably nourished but with a keen edge to their appetites. The CEO of Gaia Power Technologies, a New York City company that makes backup energy systems, recently rejiggered her sales compensation package to emphasize teamwork and long-term goals. Formerly, salespeople received 90 percent of their pay in commissions, 10 percent in salary. Today those numbers are reversed. Rather than handing out cash on close, Gaia now doles out a single year-end commission bonus. "We've managed to find the right balance of keeping the sales team hungry while making them feel like part of the team," Doruk says.

Of course, you are concerned about finessing the change with your employees as well as your partner. It may not be easy. Both of Doruk's salespeople quit in objection to the new structure. Lippie avoided that problem by instituting his nontraditional compensation package before assembling a sales staff. Since you don't have that luxury, ease your current salespeople into it by emphasizing the perks of being salaried employees: They can take longer vacations, since their team members can pick up the slack while they're away, and they'll have a safety net during tough times. If they perform well and receive annual raises, they may even make more money in the long run.

QWhen starting a company, how can you give equity to subcontractors in a way that will be honored by angel investors and venture capitalists?

Daniel Rowe, CEO
Sonibyte, New York City

It takes a village to raise a company, but just a few tribal chiefs to run one. You naturally want to maintain good terms with subcontractors before, during, and after launch, and there's nothing like a stake to keep that relationship sizzling, especially if you plan to be acquired or go public down the road. But angels and venture capitalists are wary of companies with too many shareholders wielding decision-making power.

To keep everyone happy, consider issuing warrants instead of stock. Warrants are essentially stock options for nonemployees. Holders can buy stock at a predetermined price during a defined time period, usually between three and five years after the warrants are issued. "Warrants allow you to give your subcontractors shareholder benefits, while at the same time minimizing governance," says Matt Harris, co-founder and managing general partner of Village Ventures, a venture capital firm based in Williamstown, Massachusetts. Both VCs and angels are generally comfortable with warrants for subcontractors. "They are a lot less scary than seeing a large number of actual equity owners," Harris says.

What you give out will depend on the size and stage of your company and on what the subcontractor contributes. But remember: Investors worry about being generous to a fault. "You don't want to take it too far," warns Harris. He suggests keeping stakes to less than 1 percent of the company per person "if you don't want to raise eyebrows."

Resources

For more about designing sales compensation packages, read *The Sales Compensation Handbook* by Stockton Colt. Go to the Entrepreneurial Success section at www.ventureblog.com for more insight into the minds of venture capitalists.

Looking for answers? Stumped by a thorny business problem? Let *Inc.* help. Send your questions to askinc@inc.com.

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