IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN:2278-487X, p-ISSN: 2319-7668. Volume 26, Issue 3. Ser. 2 (March. 2024), PP 01-11
www.iosrjournals.org

Variable Compensation For Product Portfolio: Case Study

Robson Duarte De Sousa[1], Samia Mercado Alvarenga[2],
Natali Morgana Cassola[3]
[1]*universidade De São Paulo.*
[2]*universidade De São Paulo.*
[3]*universidade Federal De Santa Maria.*

Abstract:
The variable compensation can influence the sales of specific items in the product portfolio. This study aims to analyze the commission policy applied in a company and its effects on product sales from 2013 to 2022, in order to propose a more effective commission policy. Specifically, the research investigates how a poorly determined policy can reduce the sale of high-value-added products and promote the sale of commoditized items, leading to financial losses for the company. For this purpose, an applied research with a mixed approach and descriptive character was conducted. It is a case study that focuses on a company based in Campinas-SP, which sells welding machines and consumables and changed its commission policy in 2012. To conduct the study, data was collected through documentary review with access to internal reports of the company. The main results confirm that over time, sales shifted towards lower-value-added items. It was identified that before the change, the company sold more profitable products.

***Key Word**: Variable compensation; portfolio; products.*

Date of Submission: 27-02-2024 Date of Acceptance: 07-03-2024

I. Introduction

Variable compensation is a remuneration model that offers financial incentives to salespeople based on their sales performance. Instead of receiving a fixed salary, sellers can earn a bonus, commission, or other financial incentives depending on their sales or goal achievements. According to Franco (2012), variable compensation rewards individuals based on their contribution to the company's results and business continuity. The amounts paid typically represent a portion linked to the fixed salary. Results-based pay and stock participation are two forms of variable compensation tied to performance.

Individual performance can be rewarded with incentives and awards, while team performance can be recognized through results-based compensation. According to Wood and Picarelli (2004), the adoption of performance-linked compensation methods is growing worldwide. The origin of these practices dates back to productivity awards or piece-rate payment systems since the early 20th century. For Marras and Neto (2012), variable compensation is a system whose final value varies according to predefined goals, whether qualitative or quantitative.

A crucial element for effective human resources management is implementing a compensation system aligned with business strategy (LARA et al., 2022). Therefore, variable compensation is an important sales management tool for several reasons. Firstly, it can motivate salespeople to work harder and sell more as they have a financial incentive to do so, potentially leading to increased sales and revenue for the company. Additionally, variable compensation can help attract and retain talented and experienced salespeople, drawn by more competitive compensation programs. This aids in building a stronger and more competent sales team, a point emphasized by Chiavenato (2021) as human capital being a competitive advantage.

In this regard, variable compensation allows the company to monitor and evaluate salespeople's performance, identifying the most productive ones and those needing more training or support. This can enhance the company's sales effectiveness and maximize revenue. Conversely, poorly determined variable compensation for the sales department can lead to various issues and create trends favoring certain product lines that may not be advantageous for the business.

This is a case study highlighting the importance of human appreciation and well-determined compensation to avoid promoting the sale of only specific product lines. The investigation focuses on a company in the Campinas-SP region that sells welding materials in the B2B sector. The objective of the study is to analyze the applied commission policy and its effects on the product sales portfolio from 2013 to 2022, with the expectation of proposing a more effective commission policy based on the results.

II. Material And Methods

For the development of this work, an applied research with a mixed approach and descriptive character was conducted. According to Gil (2017), applied research encompasses studies designed to solve identified problems within the societies in which researchers live, focusing on acquiring knowledge for application in specific situations.

The case study involves the investigation of one or a few cases, allowing for a broad and detailed understanding, a task practically impossible with other designs (Gil, 2017). This case study focuses on a company based in Campinas-SP, operating in the supply of welding materials, equipment for sale, rental, and technical assistance, as well as the sale of consumables and accessories for welding and arc cutting.

The company started its activities in 1975 by making welding equipment available to customers through rental. With increased demand for welding-related products and services, it expanded its offerings to include selling welding equipment, consumables, and accessories. Today, the company operates in three areas: sales, rental, and technical assistance.

This study specifically targets the sales department, which has operated in the state of São Paulo and has fluctuated between 4 to 8 external salespeople over the last 10 years. The department is tasked with developing products to meet customer needs, and due to its highly technical nature, customers often may not be fully aware of their actual needs or how to improve their results more efficiently.

The first step involved categorizing the products, which were divided into eight different groups based on the BCG matrix developed by Henderson (1970). The BCG Matrix (Boston Consulting Group) is a strategic analysis tool used by companies to evaluate the performance of their products or business units. It is often employed to help companies allocate resources and make strategic decisions about which products or business units to invest in, maintain, expand, or discontinue.

The BCG matrix organizes products or business units on a two-dimensional graph considering two main variables: (1) Market Share, referring to the market share that a product or business unit holds relative to the total market, usually expressed as a percentage of the company's market share compared to competitors, and (2) Market Growth Rate, indicating the market's growth rate in which the product or business unit operates, typically expressed as an annual percentage. Based on the combination of these two variables, the BCG matrix divides products or business units into four categories:

- Stars: Products or business units with high market share and a high market growth rate. They often require significant investments to maintain or expand their market position. Items in this group include high-end equipment, accessories, and consumables.
- Cash Cows: Products or business units with high market share but a relatively low market growth rate. They generate positive and sustainable cash flow and are considered income sources for the company. Items in this group include low-end consumables.
- Question Marks or Problem Child: Products or business units with low market share but are in high-growth markets. They often require careful investment decisions to determine whether to develop them into stars or discontinue them. Items in this group include parts and pieces.
- Dogs: Products or business units with low market share and a low market growth rate. They usually do not generate much profit and may be considered candidates for discontinuation unless they have some other strategic value. Items in this group include abrasives, personal protective equipment (PPEs), and non-destructive testing materials (END's).

Based on the categorization of its products or business units in the BCG matrix, companies can plan appropriate strategies. For example, they can direct investments to stars to capitalize on growth, harvest cash flow from cash cows, decide whether to invest or discontinue question marks, and consider options for dogs. However, it is important to remember that the BCG matrix is a simplified tool and should not be used alone for making important strategic decisions. It should be used in conjunction with other analyses and strategic considerations.

Data collection utilized documentary research with internal company reports as the data source, collected from the system with the manager's consent. Additionally, secondary data were sought to better understand the industry dynamics, collected from the Central Bank website and the Brazilian Steel Institute website. Data analysis involved tabulation and graph creation to facilitate result visualization. The analysis period is from 2013 to 2022. The commission policy change was implemented in 2012; to have the analysis closed by year, the study began analyzing data from 2013 onward.

III. Result

In 2011, a new manager was hired from the food industry. The board was looking for someone outside the welding industry, someone without the customs and habits of that market. He was given the challenge of changing the commissioning policy. Up until that point, the commissioning method was based on the manufacturer, as per Table 1:

Table 1: Old political commission stripe.

Supplier	Percentage
Gerdau	0,5%
Miller	3,5%
Walter	3,0%
Own line of special electrodes	3,5%
Esab, consumables	0,5%
Esab, welding equipment	3,0%
Harris	3,5%
Magnaflux	2,5%

Original search results.

The text describes a considerable difference between commoditized items and high-value-added items, with commission percentages of 3.5% for high-value-added items and 0.5% for commoditized items consumed in high volume, with little technical difference. The determining factor for purchasing these commoditized materials is price, leading to a low contribution margin. In such cases, sellers have minimal influence on order closures.

On the other hand, high-value-added items require sellers to demonstrate, test, and provide reports to prove the advantage to the customer. Therefore, the commission percentage was higher because it demanded more effort to sell.

In 2012, the management approved a change in the sales team's commission structure in São Paulo, transitioning to a flat percentage for the sale of all product lines. This change removed the balance in the lines sold, and over time, the sales department began to focus solely on commodities. Previously, the payment was based on a specific percentage for each product line, offering higher compensation for products with higher added value and requiring more effort to sell. With the alteration, the commission policy in 2012 took the form as shown in Table 2.

Table 2: New commission policy.

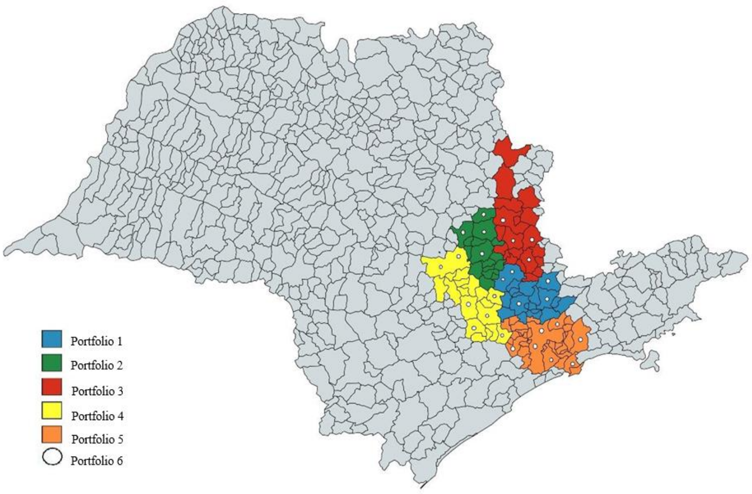
Range	Percentual sobre o valor vendido
Up to 90% of the target	1,00%
Above 90% up to 110% of the target	1,75%
Above 110% of the target	2,00%

Original search results.

In the beginning, it was thought to be positive as it would simplify the commission calculation. Based on the sales amount, the seller would already know their salary, avoiding payment errors. Sellers, according to the average they had been selling, would have an idea of what their future salaries might be. A percentage was established based on the target achievement, regardless of the product line sold. Over time, it was observed that the commission policy ended up driving the sale of low-value, low-margin products, as they yielded the same gain as other items.

The sales team ranged from 4 to 8 members over the years studied. Currently, the team consists of six sellers, handling 6 different portfolios, operating in the state of São Paulo. The portfolios are divided as shown in Figure 1.

Figure 1: Map of the regions.



Original search results.

There are 5 customer portfolios divided by region, with one portfolio designated as a key account. The cities included in Portfolio 1 are Campinas, Valinhos, Vinhedo, Itupeva, Cabreúva, Jundiai, Louveira, Itatiba, Jarinu, Bragança Paulista, Atibaia, Cajamar, Várzea Paulista, Campo Limpo Paulista, Mairiporã, Franco da Rocha, Francisco Morato, Bom Jesus dos Perdoes, and Nazaré Paulista. This portfolio has a wide variety of clients, which can result in sales of diverse items. In Portfolio 2, you have Hortolândia, Sumaré, Paulínia, Cosmópolis, Nova Odessa, Santa Barbara do Oeste, Americana, Limeira, Engenheiro Coelho, Cordeirópolis, Iracemápolis, Santa Gertrudes, Rio Claro, Araras, and Leme. This portfolio concentrates clients in the food and textile industries and many maintenance companies to serve Replan. Portfolio 3 includes Jaguariúna, Santo Antonio de Posse, Holambra, Artur Nogueira, Mogi Mirim, Mogi Guaçu, Itapira, Estiva Gerbi, Espírito Santo do Pinhal, São João da Boa Vista, Aguaí, Casa Branco, Mococa, Pedreira, Amparo, Serra Negra, Morungaba, Monte Alegre do Sul, and Tuiuti. This portfolio has important clients manufacturing equipment for agribusiness.

In Portfolio 4, you have Indaiatuba, Salto, Itu, Sorocaba, Votorantim, Alumínio, Mairinque, São Roque, Porto Feliz, Elias Fausto, Capivari, Rafard, Tietê, Mombuca, Rio das Pedras, Saltinho, Laranjal Paulista, and Piracicaba. This portfolio also has a variety of clients, including those providing maintenance services to the sugarcane and alcohol industry. Portfolio 5 includes São Paulo, Guarulhos, Arujá, Mogi das Cruzes, Suzano, Ribeirão Pires, Mauá, Santo André, São Bernardo, São Caetano, Diadema, Cubatão, Santos, Guarujá, Osasco, Barueri, Jandira, Itapecerica da Serra, Embu Guaçu, and Cotia. This portfolio also has a diverse range of clients, including important ones in the auto parts industry. Portfolio 6 is the only one not organized by region, containing strategic clients requiring closer and more technical support.

The team consists of 6 men, with 3 in their 30s to 40s, 2 in their 40s to 50s, and one in his 50s to 60s. The most experienced team member handles Portfolio 6. There are three categories with different salary ranges: junior, intermediate, and senior. In addition to the fixed salary, the team has variable compensation based on goal achievement. Two sellers are categorized as junior, promoted from internal sales; three are intermediate, with one having over 10 years of experience, and others gaining sales and market knowledge but lacking welding expertise and are in development. There is one senior team member with over 20 years of experience, recognized for expertise and market knowledge, including welding.

In Figure 1, the revenue for 2013 is demonstrated by stock group. Products are divided into 8 different groups, namely:

Consumíveis low end: This group includes wire and electrodes for carbon steel welding. These materials are based on carbon steel, with a low level of industrialization complexity, and are considered commodities according to Figures 2 and 3.

Figure 2: Welding wire.

Original search results.

Figure 3: Welding electrode.

Original search results.

Equipment: In this group, there are welding and cutting machines and essential parts for assembling a welding set. These items feature high technology and added value. See Figure 4.

Figure 4: Welding machine.

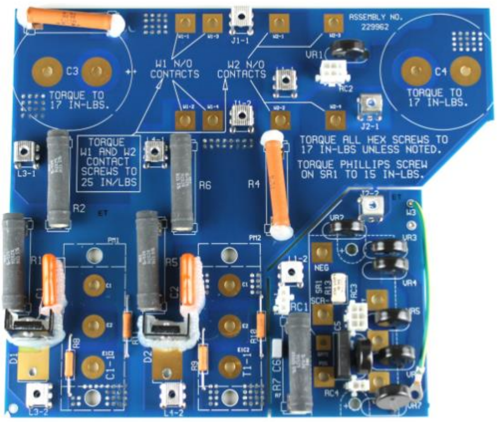
Original search results.

Parts and Pieces: In this group, there are items to form a welding set or pieces for repair, as shown in Figures 5 and 6.

Figure 5: Welding gun.

Original search results.

Figure 6: Welding machine plate



Original search results.

Accessories: In this group, there are secondary items that help improve the operation of equipment and processes, such as cooling circuits, sharpeners, items similar to those in the parts and pieces group, but with advanced construction technology. Items may be lighter or more resistant, as shown in Figure 7.

Figure 7: Welding gun with flexible cable.

Original search results.

Abrasives: These are discs for cutting or grinding steel, items for polishing stainless steel. They can be considered commodities depending on the manufacturer, but these are premium items that last longer than those of the competition, as shown in Figure 8.

Figure 8: Cutting disc.

Original search results.

END'S: These are items for testing non-visible cracks not visible to the naked eye. In this group, there are chemicals and equipment for conducting the test, as shown in Figure 9.

Figure 9: Equipment for crack testing by magnetism.

Original search results.

EPIs: In this group, there are items for the protection of the welder, including a leather jacket, welding mask, and gloves as shown in Figure 10.

Figure 10: Equipped welder with a leather jacket, leather gloves, welding mask, and respiratory mask.

Original search results.

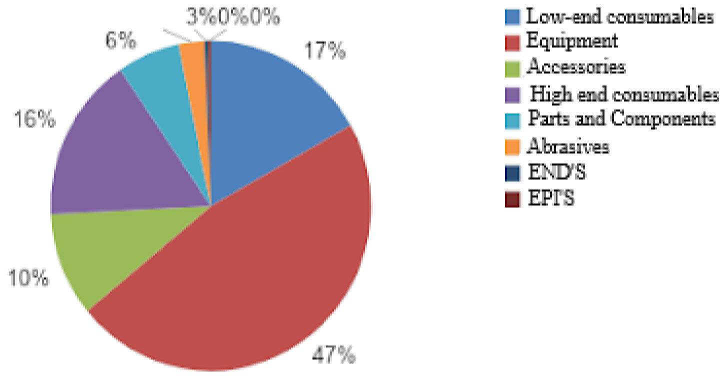
High-end Consumables: In this group, there are wires and electrodes for welding special steels such as stainless steel, cast iron, nickel alloys. These items have high added value, as shown in Figure 11.

Figure 11: Electrode from the Elga brand.

Original search results.

In 2013, the first year after the policy change, the sales percentages of inventory groups can be observed in Figure 12.

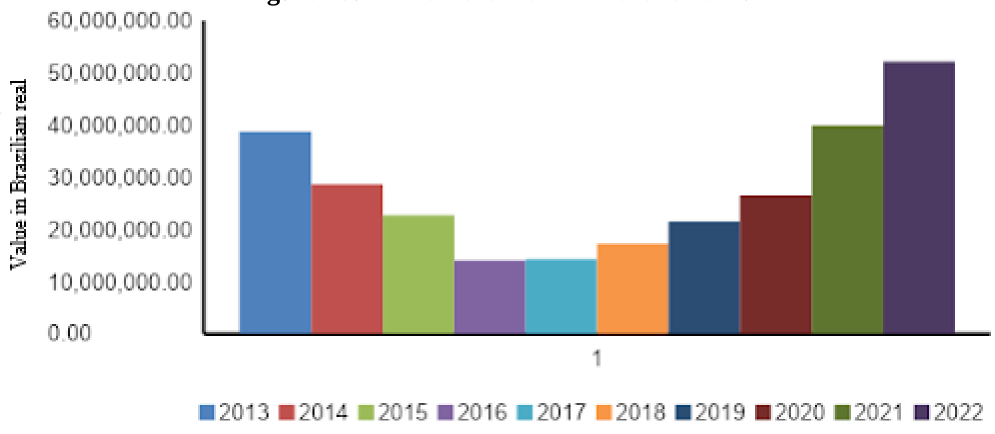
Figure 12: Annual revenue in 2013 by inventory group.



Original search results.

Observing Figure 12, it can be noted that in the first year after the change in the commissioning policy, the sale of low-end consumables was not yet the highest. Sellers were focusing on other product lines, but due to high demand, it still had a significant percentage. The equipment inventory group accounted for 47% of sales, followed by low-end consumables at 17%, closely trailed by high-end consumables at 16%. The majority of sales were from products with high added value and higher contribution margins. Figure 13 displays the overall revenue of the sales department.

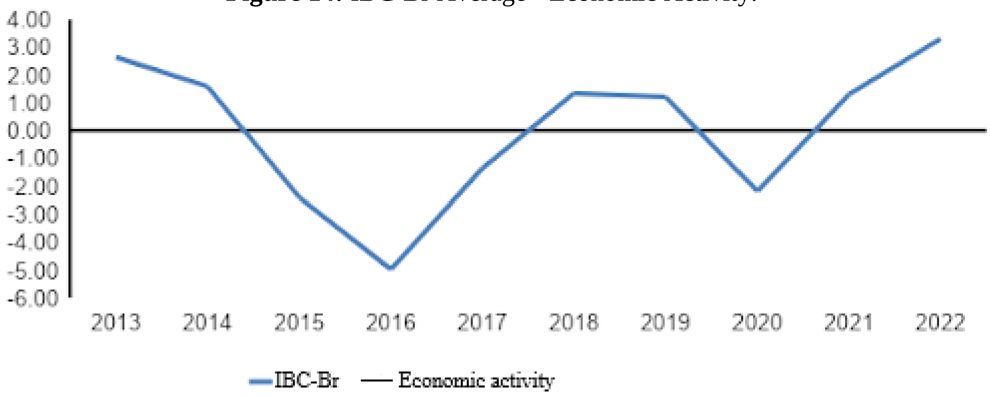
Figure 13: Annual revenue from 2013 to 2022.



Original search results.

It can be noticed a significant drop in revenue in 2016, at the same time when there was a strong decline in economic activities from 2013 to 2016. The Operation Car Wash (Operação Lava Jato), which began in 2014, also greatly affected the welding market. The largest construction companies in Brazil were under investigation, with their directors being arrested. However, a strong growth is observed from 2018 onwards. Economic activity strongly influences the welding market as it impacts the industry's optimism. As seen in Figure 14, the decline in 2016 and subsequent growth are quite similar.

Figure 14: IBC-Br Average - Economic Activity.

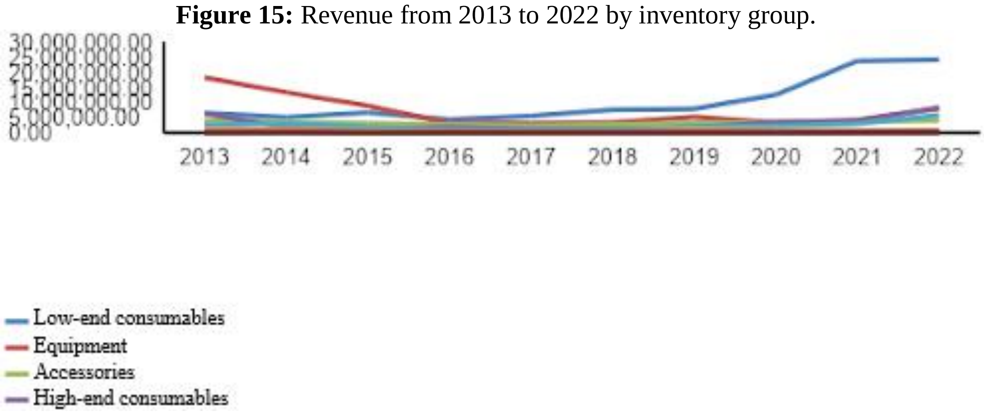


Source: Directory of Transactional Account Identifiers - DICT" in English.

The Central Bank's Economic Activity Index (IBC-Br) reflects the activities of industry, services, and agriculture. Released monthly, it has a methodology different from that of the GDP, so it is not exactly a preview of this index. The index strongly reflects the welding market, as the industry needs to meet market demand. There was an exception to the pandemic decline.

With the new commissioning policy along with a decline in economic activities, the sales department started focusing on items that are easier to sell since the gains are the same. Figure 15 highlights the sharp growth in sales of low-end consumables, which are commoditized items with lower profit margins.

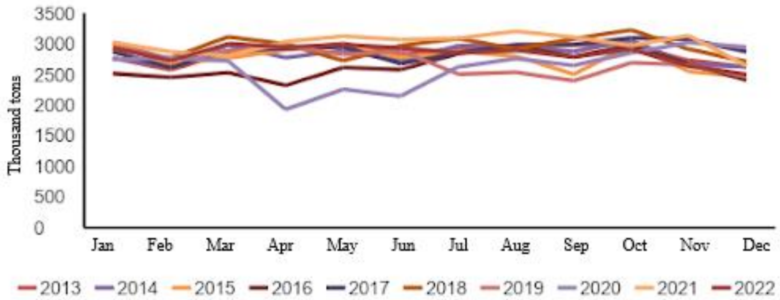
Figure 15: Revenue from 2013 to 2022 by inventory group.



Original search results.

In Figure 15, the significant growth in sales of welding consumables classified as Low end is emphasized. These items are non-differentiated, with low profit margins, and are considered commodities as their main raw material is steel, with a low degree of industrialization. As indicated in Figure 16, the consumption of steel remained linear over the years.

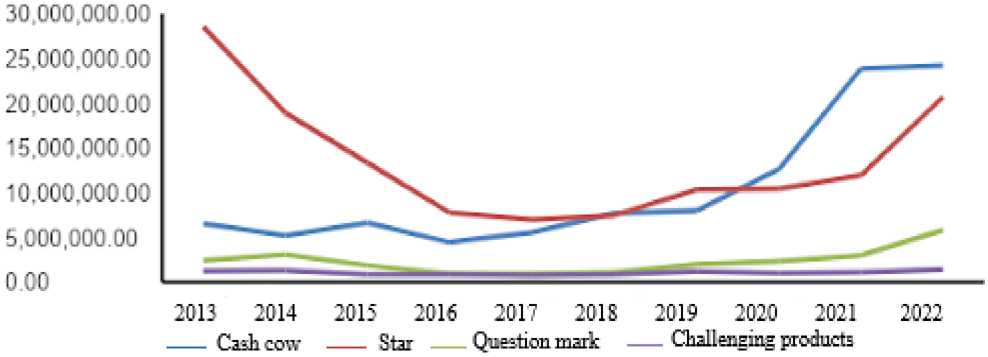
Figure 16: Steel Production in Brazil.



Source: Steel Brazil / Ministry of Industry, Foreign Trade and Services.

Observing Figure 16, it can be noted that the production of steel in Brazil followed the declines in economic activities in 2016 and 2020, but there was no pronounced growth like the sales of low-end consumables. This indicates that there was no increase in market demand; rather, the sales grew due to the sales department's focus. The emphasis on low-end consumables sales is evident, with the decline in the lines of value-added, as observed in Figure 17.

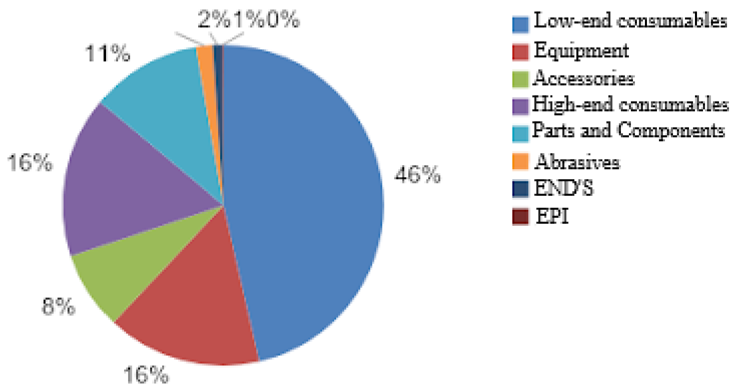
Figure 17: Revenue of groups classified by BCG from 2013 to 2022.



Original search results.

There is a significant drop in revenue for the "star" items, with a slight recovery in 2022. This is followed by strong growth in items classified as "cash cow." The "question mark" and "pineapple" items remained stable. As a comparison, it is noteworthy in Figure 18 that low-end consumables have the highest percentage in 2022.

Figure 18: Annual Revenue in 2022 by Inventory Group.



Original search results.

Observing Figure 18, it can be noted that low-end consumables represent a percentage of 47% of the total sales, whereas in 2013 it was 17%, and equipment, which in 2022 represents 16%, was at 47% in 2013. The focus has been reversed. Based on the diagnosis obtained from the data analysis, Table 3 compares the sales value with the commission amount.

Table 3: Sales Value vs. Commission Value 2022.

Inventory Group	Sales Value	Total Commission Value
Abrasives	869.332,60	17.386,65
Accessories	4.118.974,11	82.379,48
END's	497.330,75	9.946,61
EPI'S	61.488,97	1.229,78
Equipment	8.139.031,18	162.780,62
Parts and Components	5.829.546,40	116.590,93
Low-end Consumables	24.212.081,24	484.241,62
High-end Consumables	8.446.664,77	168.933,30
Total Overall	52.174.450,02	1.043.489,00

Original search results.

The revenue for 2022 is the most up-to-date information provided by the company. Considering that all goals were achieved, and there is no data on revenue versus the target due to changes in the client portfolio, assuming that all objectives were met, the company would pay the highest commission rate of 2%. It can be noted that the highest amount is paid for items with a lower contribution margin.

Based on the results obtained and aiming to achieve the third objective, which was to create a more balanced commissioning plan, a proposal was made to align the earnings of the salespeople with a healthy contribution margin for the company. Table 4 is proposed, along with an additional 10% in commission for the salesperson who achieves the goal.

Table 4: Proposed New Commissioning Policy.

Inventory Group	Percentual
Low-end Consumables	0,5%
Equipment	3,5%
Accessories	2,0%
High-end Consumables	3,5%
Parts and Components	2,5%
Abrasives	2,0%
END's	3,0%
EPI'S	2,0%

Original search results.

Observing that the proposed remuneration strategy has a higher percentage for items with a higher contribution margin, there is a better balance between the commission values paid for items that contribute more to the margin. As noted in Table 5, there is a slight increase in the amount the company will have to pay.

Table 5: Sales Value vs. Proposed Commission Value.

Inventory Group	Sold value	Total commission amount
Abrasives	869.332,60	17.386,65
Acessórios	4.118.974,11	82.379,48
END'S	497.330,75	14.919,92
EPI'S	61.488,97	1.229,78
Equipamentos	8.139.031,18	284.866,09
Partes e Peças	5.829.546,40	145.738,66
Consumíveis Low end	24.212.081,24	242.120,81
Consumíveis high end	8.446.664,77	295.633,27
Total	52.174.450,02	1.084.274,67
Total + 10% Bonus		1.192.702,13

Original search results.

Observations indicate that the suggested commission value is slightly higher than what the company currently pays. However, the values are more evenly distributed among inventory groups, so the highest payments come from items with better margins, bringing more balance. According to Franco (2012), a good compensation model is one that is implemented and self-financed.

It is emphasized that even though the commission for the most sold items has decreased, the total commission value has not decreased. This is important to avoid dissatisfaction and lack of motivation for the salespeople. As Bergamini (2009) points out, organizations' greatest challenge is to handle each individual's motivation without using false motivators like threats of punishment, promises of prizes, and other poor rewards. These false rewards are the biggest mistakes made by companies today. According to Mâcedo et al. (2004), motivation in organizations is associated with financial rewards. Employees who think this way are driven by principles of financial success and see the company as someone who satisfies their priorities and interests; therefore, they desire higher salaries, benefits, and gains.

IV. Conclusion

This study aimed to analyze the trends created in sales due to a linear variable compensation policy. The growth in the sales of commoditized products was observed, and a decrease in the sales of value-added products. Additionally, a more advantageous approach for both the company and the salespeople was proposed, without reducing the commission value. With the new policy, it is expected that the sales force will start directing their efforts toward the marketing of differentiated products (a different product mix) with higher added value, increasing their participation and relevance with customers.

Despite managerial contributions, the study is limited to the case of a single company, making it difficult to generalize results for use in other companies. Despite evaluating a considerable period, it would be interesting to analyze how things were before the change and continue this analysis in the future. Future studies may advance with this follow-up in the rental and technical assistance area.

References

[1]. José De Oliveira Franco. 2012. Cargos, Salários E Remuneração. Ed. Rev. Iesde, Curitiba, Pr, Brasil.
[2]. Chiavenato, Idalberto. 2021. Treinamento E Desenvolvimento De Recursos Humanos: Como Incrementar Talentos Na Empresa. 9ed. Atlas, São Paulo, Sp, Brasil.
[3]. Wood Junior, T.; Picarelli Filho, V. 2004. Remuneração Estratégica: A Nova Vantagem Competitiva. 3ed. Atlas, São Paulo, Sp, Brasil.
[4]. Gil, A.C. 2022. Como Elaborar Projetos De Pesquisas. 4ed. Editora Atlas, São Paulo, Sp, Brasil.
[5]. Lara, Ana Cristina Da Silva Et Al. Remuneração Variável: Um Fator De Retenção Da Alta Liderança. 2022.
[6]. Marras, J. P.; Neto, P. 2012. Remuneração Estratégica. 1ed. Editora Elsevier, Rio De Janeiro, Rj, Brasil.
[7]. Bergamini, Cecília Whitaker. 2002. O Líder Eficaz. 1ed. Editora Atlas, São Paulo, Sp, Brasil.
[8]. Macêdo, I. I.; Rodrigues, D. F.; Johann, M. E. P.; Cunha, N. M. M. 2004. Aspectos Comportamentais Da Gestão De Pessoas. 3ed. Fgv, Rio De Janeiro, Rj, Brasil.
[9]. Wikipedia. A Matriz Bcg. Henderson, Bruce. 1970. Disponível Em: <Https://Pt.Wikipedia.Org/Wiki/Matriz_Bcg>. Acesso Em: 28 Set.2023.
[10]. Fonte: Instituto Aço Brasil. Disponível Em: <Https://Acobrasil.Org.Br/Site/Wp-Content/Uploads/2023/09/Performance-Mensal_2023.08.Xls>. Acesso Em: 11 Set.2023
[11]. Fonte: Banco Central, Diretório De Identificadores De Contas Transacionais–Dict. Disponível Em <Https://Www.Bcb.Gov.Br/Estatisticas/Detalhamentografico/Graficosestatisticas/Ibcbr>. Acesso Em: 26 Set.2023.