Managing Sales Force Compensation: The Strategic Choice between Direct Sales Force and Independent Reps

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Abstract  
There is a considerable debate on the question of direct sales force vis-à-vis reps. The  
convergence of direct sales force cost and commissions paid to reps is key in the initial  
decision to use direct sales force or reps based on an analysis to minimize total costs. The  
choice between direct sales force and independent reps can have a significant impact on  
the valuation of the organization. It is likely that an optimal point (of direct sales force and  
indirect reps) is reached where a specific “sales force structure” is adding the most value to  
the company, thereby resulting in higher valuation. The frameworks provided in this article  
will help managers of sales organizations faced with structuring decisions. The choice  
between a direct sales force and reps depends on many economic and non economic factors.  
The decision related to the use of direct sales force or reps should be investigated not only for  
their cost and return but also for the market dynamics, its sales range and reach in the market  
and the relative strengths of the reps.  

Keywords  
Direct sales force, independent reps, sales force structure, sales compensation, variable pay  

Notes  
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Author Biography

Pankaj M. Madhani received an MBA degree from Northern Illinois University and an MS in computer science from Illinois Institute of Technology, Chicago. He holds bachelor’s degrees in chemical engineering and law, both from Gujarat University. He has more than 25 years of corporate and academic experience in India and the United States. He is currently working as an associate professor at ICFAI Business School and is now working on his doctoral thesis on sales force compensation. He has published seven books in the areas of ERP, business strategy and corporate finance and more than 100 book chapters and research articles in several refereed journals. He is frequent contributor to Compensation & Benefits Review. His research interests include sales force compensation, corporate governance and strategic management.