Group sales incentives boost weak brand sales, study finds

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New research co-authored by a UC Riverside business professor provides some sound advice for managers of retail outlets that limit their product selection to a particular brand: Managers should factor in the strength of their brand when structuring the pay incentives for their sales staff. The study, "Group or Individual Sales Incentives? What is Best for Brand-Managed Retail Sales Operations?" is published in the *Journal of Marketing*.

The study focused on what marketing scholars call "brand-managed" retail operations. These outlets include "stores within stores," such as counters in major department stores with dedicated sales staff that offer just one brand of cosmetics such as Clinique. They can also be stores in malls that offer a single brand's line of products, such as Nike sportswear or Gap clothing.

UCR marketing professor Subramanian "Bala" Balachander and his collaborators found that with weaker brands, group incentives, such as sales commissions divided up equally among the sales team members, resulted in better sales performances for particular sales outlets. They also found individual incentives, such as commissions based on each salesperson's sales volumes, were more effective for stronger brands.

While these results may sound counterintuitive, Balachander explained that weaker brands generally have more uncertain sales outcomes. If salespeople are compensated individually, the store runs the risk of paying certain salespeople too much for easy sales from repeat buyers or customers who arrive at the stores ready to make a purchase.

"With a weaker brand, group sales compensation gives you a better filter because it doesn't matter whether a particular salesperson got the easy sale or the difficult customer, and we know for sure that the salespeople have been doing their work and being successful in converting those new customers. This advantage is much more valuable to the weak brand," said Balachander, who is the Albert O. Steffey Chair at the UCR's School of Business.

The study is based on data from brand-managed retail operations in the United States and China.

In the U.S., the researchers gathered data about the prevalence of group compensation in brand-managed outlets by obtaining designer brand names for beauty and fashion lines offered by a high-end department store and from stand-alone stores at the Mall of America in Bloomington, Minn., from online directories. The researchers used Glassdoor.com and Indeed.com to gather employee-reported information about salesperson incentives in the form of commissions or cash bonuses offered by brands.

In China, the researchers obtained monthly sales data from 23 gold jewelry brands sold in a large retail store, with each brand having its own counters and sales staff. Similarly, sales data was gathered from a major Chinese electronics retailer, which received a percentage of the sales revenue from 51 brands generated in the store. Each brand set up its own selling counter and hired its own salespeople.

The study also provides a model of how brand strength or equity, which is based on marketing, promotion, customer awareness, and other factors that influence customer perception before they arrive at the store, influence the selling effectiveness of salespersons.

More information: Wenshu Zhang et al, EXPRESS: Group or Individual Sales Incentives? What Is Best for Brand-Managed Retail Sales Operations?, *Journal of Marketing* (2024). DOI: 10.1177/00222429241249424

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