

# Arck systems case



## Arck Systems Case

1. A number of elements in the two companies' compensation plans are different. Which of these differences should most concern Bryan Mynor?

Explain

The following elements in the compensation plans are different between Lux Software and Arck: Base Pay (They both receive base pay, but it is almost double the amount the sales representatives receive at Arck than the representatives at Lux Software); Quota (The representatives at Lux Software must reach sales worth \$100. 000 dollars per quarter, at Arck on the other hand they must reach sales worth \$1. 000. 000 per year); Sales commission (At Lux Software the representatives receive 4%, while at Arck they receive 9%); Cap (A Cap is the sales level after which a salesperson will not make commission on further sales. This doesn't exist at Lux Software and with Arck the limit is \$6. 000. 000 in sales per year). Other bonus (There are no other bonuses at Lux Software, while if you reach the cap at Arck the representatives get a \$50. 000 bonus).

The most important difference for Bryan Mynor is probably the sales commission with a focus on the accelerators. Because of the accelerators the payroll is stretched out a lot. For instance, the difference in payroll between the 1st and 10th percentile is \$2. 8mn.

2. In a table compare the following characteristics of a Lux's Sales Rep and an Arck's Sales Rep: product sold Profit Margin, Sales Nature (which is more technical and which more relationship?), Sales level of difficulty, Pay Level for Avg. Sales Rep, Pay Level for Top Sales Rep

Lux's	Software	Sales	Rep
Arck's	Sales	Rep	margin
Product	sold	profit	margin
Technically-orientated			
Relationship-orientated			
Sales	level	of	difficulty <sup>1</sup>
Harder			
Easier			
Pay	level	average	sales rep
\$120.		000,	-
\$130.		000,	-
Pay	level	top	sales rep
\$3.	600.	000,	-
\$565.	000,	-	

3. Should Mynor propose scaling back Lux software's commission accelerators? Are there other changes to Lux software's compensation plan that he should consider?

Bryan Mynor should definitely propose a scaling back at Lux software's commission accelerators. Lux software's approach to sales management is similar, except for the commission accelerators. Because of this, as explained before, the payroll is stretched out. If he could scale back the software commission, this problem would be solved as well. Also Mynor said: "Look at Arck; the top salespeople make about four or five times more in pay, and are four or five times as productive. It seems to make a lot more sense." <sup>2</sup> Furthermore I don't think any other changes are necessary, Mynor

could think about raising the base pay, because the lowest percentile at Lux software receives significantly less money compared to the lowest percentile at Arck. And since the approach to sales management of both companies is kind of similar it doesn't make sense that the lowest profile differ so much.