



**DEPARTMENT OF MANAGEMENT SCIENCE
RECRUIT SEMINAR SERIES
WINTER 2006**

Presents:

**Wenquang Xiao
Columbia University**

“Sales Contests and Production Planning”

Friday, January 27
10:30-12:00pm
Balmer 311

Abstract:

In many sales environments, the salespeople have superior information about the market because of their close contact with consumers. This information is potentially very useful for the firm's production planning. Therefore, as Gonik (1978) has articulated many years ago, a good salesforce compensation scheme should achieve two goals: one is to motivate the salespeople to work hard, and the other is to elicit market information from them for the firm's production purposes. In many sales organizations, we often see incentive programs that include a sales contest, under which a salesperson's bonus is determined by his performance relative to that of the other salespeople. It is the main purpose of this paper to study sales contests in light of the needs to motivate hard work and elicit information. We observe that a common sales contest provides incentive for exerting sales effort but does not achieve information elicitation. We propose a new sales contest which measures each salesperson's performance based on not only his sales volume, but also his sales forecast. We show that this forecast-based sales contest achieves full information screening, while retaining the power to motivate sales efforts. While sales contests are based on relative performance, it is also prevalent to reward salespeople based on their individual performance. For example, the piece rate system rewards each salesperson linearly based on his sales volume. Another purpose of the paper is to compare the above forecast-based sales contests with menus of linear contracts (the purpose of providing a menu of contracts is for information screening). We find that the need for information elicitation changes the comparison between sales contests and linear contracts.

Co-Author: Fangruo Chen

For a copy of the paper or for further information, please contact:
Department of Management Science
University of Washington Business School
Box 353200, Seattle, WA 98195-3200
Telephone: 206-543-1043
mgtsci@u.washington.edu