

Compensation Strategies at Circuit City and Best Buy

The incentive plan at consumer electronics retailer Circuit City paid off big for experienced, high-performing salespeople: At its retail stores, salespeople who moved more than \$1 million a year could earn over \$50,000 in salary and sales bonuses. One successful salesperson knew the products and kept up to date so well that customers would seek him out for advice before they made a purchase. Circuit City's compensation strategy aligned with its business by rewarding such experienced top performers.

The strategy also differentiated Circuit City from archrival Best Buy. Best Buy featured self-service stores with huge inventories. It hired young, less-experienced people and offered lower wages and smaller bonuses. But, in today's economy, Best Buy's sales and total shareholder returns soared past those of Circuit City. The compensation strategy at both companies aligned with their business strategies; they also differentiated. But Circuit City's compensation strategy no longer added value when compared to Best Buy's. Recently Circuit City laid off 3,900 top-earning salespeople and replaced them with 2,100 less-experienced people who receive lower wages and smaller bonuses. Circuit City says it can no longer afford to pay big commissions to its sales staff while its rivals pay less.

Companies can learn from these example, organizations today continue to look for the return they are getting from their incentives, benefits, and even base pay. Compensation is often a company's largest controllable expense.

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