

Case Study #1

Pay Decisions at Performance Sports

Katie Perkins' career objective while attending Rockford State College was to obtain a degree in small business management and upon graduation to start her own business. Her ultimate desire was to combine her love of sports and a strong interest in marketing to start a mail-order golf equipment business aimed specifically at beginning golfers.

In February 1996, after extensive development of a strategic business plan and a loan in the amount of \$75,000 from the Small Business Administration, Performance Sports was begun. Based on a marketing plan that stressed fast delivery, error-free customer service, and large discount pricing, Performance Sports grew rapidly. At present the company employs sixteen people: eight customer service representatives earning between \$9.75 and \$11.25 per hour; four shipping and receiving associates paid between \$7.50 and \$8.50 per hour; two clerical employees each earning \$7.75 per hour; an assistant manager earning \$13.10 per hour, and a general manager with a wage of \$14.25 per hour. Both the manager and the assistant manager are former customer service representatives.

Perkins intends to create a new managerial position, purchasing agent, to handle the complex duties of purchasing golf equipment from the company's numerous equipment manufacturers. Also, the mail-order catalog will be expanded to handle a complete line of tennis equipment. Since the position of purchasing agent is new, Perkins isn't sure how much to pay this person. She wants to employ an individual with between five and eight years of experience in sports equipment purchasing.

While attending an equipment manufacturers' convention in Las Vegas, Nevada, Perkins learns that a competitor, East Valley Sports, pays its customer service representatives on a pay-for-performance basis. Intrigued by this compensation philosophy, Perkins asks her assistant manager, George Balkin, to research the pros and cons of this payment strategy. This request has become a priority since only last week two customer service representatives expressed dissatisfaction with their hourly wage. Both

complained that they felt underpaid relative to the large amount of sales revenue each generates for the company.

Questions

1. Identify at least 2 factors that Perkins and Balkin should consider when setting the wage for the purchasing agent position?
2. Identify at least 2 resources that are available for Perkins and Balkin to consult when establishing the purchasing agent's wage?
3. Suggest at least 2 advantages of a pay-for-performance policy for Performance Sports.
4. Suggest at least 2 disadvantages of a pay-for-performance policy for Performance Sports.
5. Suggest a new payment plan for the customer service representative.