The Impact of Manufacturer SPIFF on a Supply Chain With Retailer-
hired Sales Agent

Neda Embrahim Khanjari

Rutgers University, School of Business – Camden Campus

Abstract:

In many industries, manufacturers pay commissions to retailer-hired sales agents to boost the demand for their products. This type of payments are often called Sales Performance Incentive Funds (SPIFF). In this paper, we study the implication of SPIFF payments on supply chain performance. We show that SPIFF payments can help the supply chain in two ways: (i) they allow the manufacturers to motivate under-motivated sales agents and hence sales increases due to increase in effort of retailer-hired sales agents; and (ii) SPIFF payments cause the retailer to reduces the retail price (or increase safety stock in case of demand uncertainty) and hence sales increases beyond the mere increase in effort. We also show that the retailer and the supply chain as a whole always benefit from the SPIFF program but the manufacturer does not always benefit from it. More specifically, if the wholesale price decision is endogenous or if it is exogenous but not large enough, the manufacturer loses profit if she implements a SPIFF program. That is, the manufacturer should consider to implement the SPIFF program only if the wholesale price decision has been made before the selling season and it is large enough.