The Best Commission Calculator for You
Four Options for Automating Commissions

Many accounting functions are similar from company to company. You probably use standard A/R, A/P, and General Ledger software whether you import food or provide training services.

Commissions are different. Companies develop unique plans, optimized for their business strategy. In fact, companies frequently have great variety *within* their plan, computing compensation differently for different products, customers, or sales representatives.

Accountants use many different tools to compute these varied commissions. However these tools all fall into four categories:

- Fixed-function commission software

- Report writers

- Rule-driven commission software

- Custom software

Each of these methods is right for some companies. This paper explains their pros and cons, and how to choose the right one for *your* company.

Fixed-Function Software
Standard accounting software usually has the ability to compute simple commission rules, such as: "All salespeople get 3% on all sales." Often different rates can be used for different items, customers, etc. For some accounting systems, you can buy software which adds more rules.

The defining characteristic of these programs is that they implement certain specific rules. Within the limits of these rules, the user can set predefined parameters; for example, maybe commission is 4%, rather than 3%. However, you cannot add rules. If your commission rate is based on a quota, you can use fixed-function software only if it has a quota feature.

Who should use fixed-function commission software? This is usually an easy decision: If the shoe fits, wear it. In other words, if you can find proven fixed-function software which implements your rules, this will probably be the least costly, simplest method of computing your commissions.

What if the shoe *almost* fits? For example, maybe you can find fixed-function software which computes the commission for your salespeople, but not for your sales manager. Or maybe the fixed-function software doesn't support the sales teams you use, but you could assign a salesperson ID to each team and manually distribute commission to team members.

There is no general answer to this question. Your choice will depend on your situation: How many hours will the adjustments require each month? Will the semi-automatic reports be as accurate and clear as reports created by rule-driven software? What is the cost of each type of software?

Occasionally vendors of fixed-function software offer to modify their source code to compute a unique commission plan. They may claim that this makes their product equivalent to rule-driven software. However, this is far from the case; it actually results in a form of custom software. You will need to customize every new version of the commission software – and you will need a new version of the commission software whenever you update your accounting software. Furthermore, since only vendor personnel can customize the source code and each customization is unique, they can do this on whatever schedule and at whatever price they consider appropriate. In contrast, version updates to rule-driven software do not require manual rule changes, accounting-system updates typically do not require updates to the commission software, and updates are generally included in moderately-priced annual support contracts.

Report Writers
Custom reports are a common way to compute unique commission plans. Often, they do this well. In fact, custom commission reports are really a special case of the custom commission software option described below. What distinguishes custom reports from other custom commission software is that they are much less costly to implement. Unfortunately, with this lower cost comes reduced flexibility and power. Specifically, report writers have three limitations.

- As more rules and parameters are introduced, custom reports may not be able to handle the increased complexity. For example, you can easily write a report which pays a different rate for each combination of 3 salespeople and 2 product lines. Coding similar logic for 100 salespeople selling 15 product lines is probably impractical. If the rate also depends on zip code and you sell into 60,000 zip codes, you certainly cannot hard code all combinations into a report.

- If hard-coded commission parameters change frequently, you will have to change the report continually. This will take time and introduce the chance of error. Also, your commission accountant may need help doing this.

- Some commission rules are difficult to implement in a report writer. For example, commission on product returns is often charged back at the rate in effect when the order was invoiced. However, if the rate changes, it can be hard for a report writer to determine the original rate.

A common practice is to do most computations in a custom report, then export the report to a spreadsheet and enter manual adjustments into the spreadsheet. This works well if few manual adjustments are needed. However, if the manual adjustments take 8 hours or more per month, one of the other methods will be more economical and accurate.

Rule-Driven Commission Software

A "rule-driven" commission program is one that bases its computations on rules supplied by the user, rather than requiring the user to select from a fixed set of preprogrammed rules.
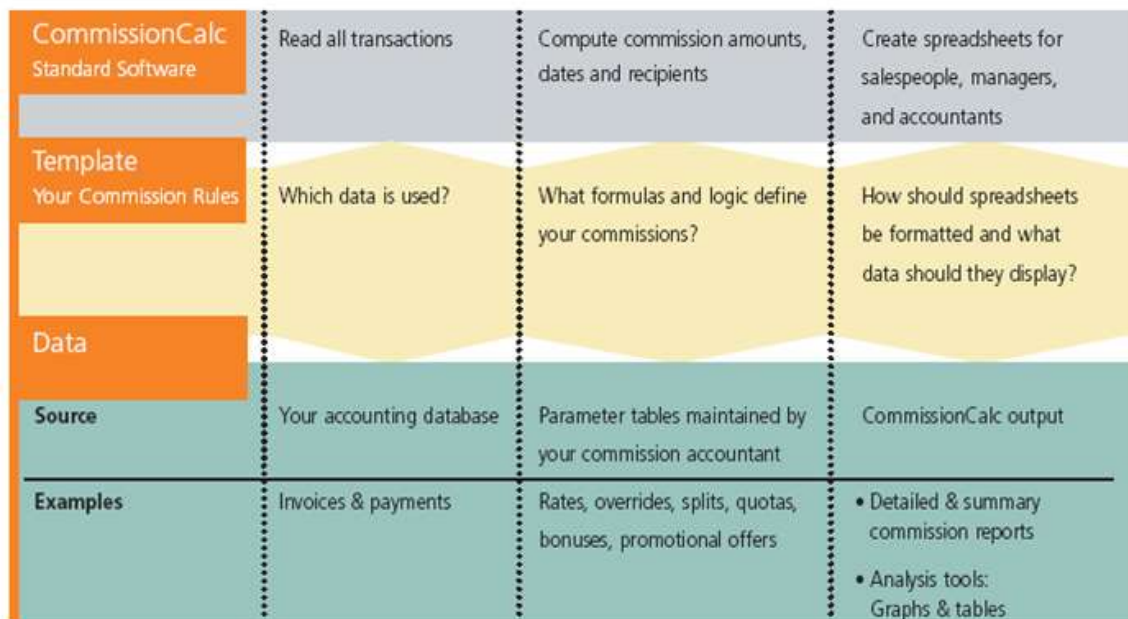
CommissionCalc Standard Software	Read all transactions	Compute commission amounts, dates and recipients	Create spreadsheets for salespeople, managers, and accountants
Template Your Commission Rules	Which data is used?	What formulas and logic define your commissions?	How should spreadsheets be formatted and what data should they display?
Data			
Source	Your accounting database	Parameter tables maintained by your commission accountant	CommissionCalc output
Examples	Invoices & payments	Rates, overrides, splits, quotas, bonuses, promotional offers	• Detailed & summary commission reports • Analysis tools: Graphs & tables

Figure 1: Rule-Driven Commission Software

With fixed-function commission software, the data passes directly from your accounting database to the standard computation and reporting software – i.e. directly from the green *Data* layer to the grey *Standard Software* layer in the diagram above. There is no tan *Template* layer.

Rule-driven commission software, in contrast, inserts a middle, user-defined layer to specify your commission rules. Since this middle layer is configured for each user, virtually any commission computation can be made. The commission software uses both the database *and* the rules. Therefore, rule-driven software offers much more flexibility than report writers and fixed-function software.

Why hasn't rule-driven software entirely replaced fixed-function commission software? Because it has historically been much more costly to buy and implement. In fact, traditional rule-driven commission software was designed only for companies with very large sales forces, because only they could afford it.

This changed with the introduction of CommissionCalc in 2000. The appendix to this white paper explains how CommissionCalc makes rule-driven software accessible to companies with small and mid-sized sales forces and saves money for companies with many salespeople. Also, you can view a prerecorded, three-minute demonstration of CommissionCalc at http://www.commissioncalc.com/Demos.html.

Custom Software
Custom commission software varies greatly. Today, it is most often used to compute commission in only 2 extreme cases.

- First, it is used for very simple, but unique, commission plans, where the development cost will be small. The custom reports discussed above are the most common example of this.

- Second, it is used for extremely complex plans where there is simply no other alternative and cost is not an object. For example, drug companies pay commission to the salesperson who worked with the doctor who wrote the prescription for their drug. Since it is difficult to determine who that is, we know of one such company which used custom software. Although they spent more maintaining that software than on commission, this was essential to their marketing strategy, so they were willing to pay the price.

In most other cases, standard commission software – whether fixed-function or rule-driven – is more economical, simpler to implement and maintain, and more reliable than custom software.

What Is Best for You?
In principle, there are many options. In practice, the number of viable options depends on both what your commission rules are and what accounting software you use.

- Fixed-function commission software is economical, and a good choice if your commission plan fits within the rigid limits of this type of program.

- A custom report is often a practical way to compute a unique commission plan, provided that the plan is not too complex.

- Rule-driven commission software is the method of choice when those methods aren't flexible enough, especially now that the availability of CommissionCalc has made this option economically viable regardless of how many salespeople you have. This type of software can compute virtually any commission.

- Rarely, none of the above will work. In that case, custom software may be the only option.

There are many ways to compute sales commission, but only one of them is right for you.

Appendix

CommissionCalc vs. Traditional Rule-Driven Commission Software
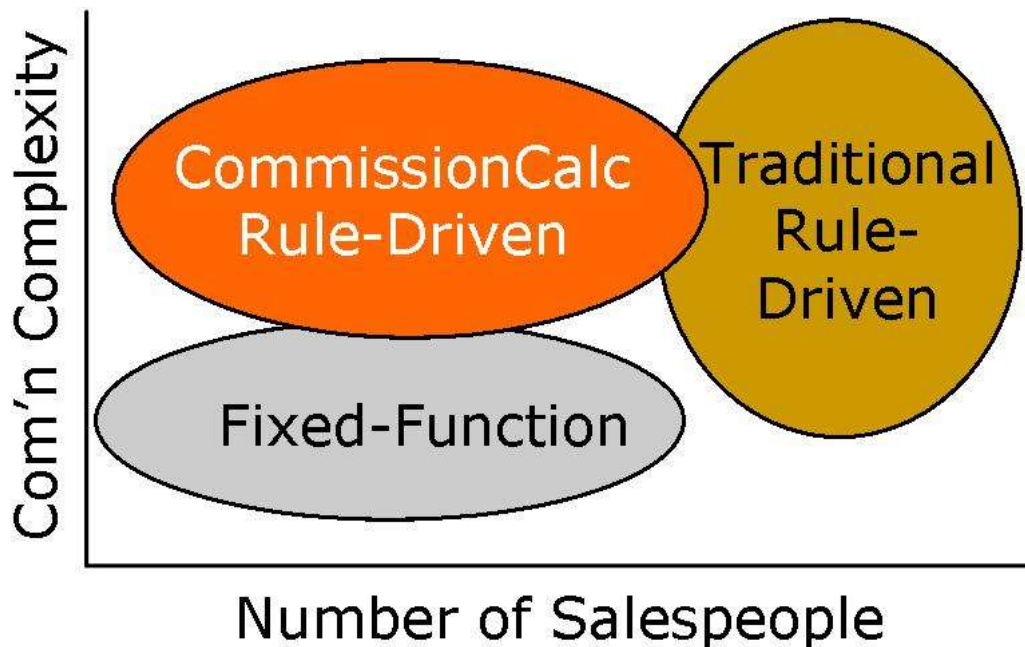
Traditional rule-driven commission software does a good job for companies with a large sales force, a six figure software budget, and a need for sales force management functions which go beyond computing and reporting on commissions. However, high implementation cost and software license fees, plus complex operating procedures, limit its use. CommissionCalc is designed to overcome this, making commission automation accessible to companies of all sizes. Some CommissionCalc users pay just a few people, while others pay 250 recipients. If you pay thousands of salespeople, though, you need traditional software.

This appendix explains what makes CommissionCalc so cost-effective.

Fast, Economical Implementation

Installing traditional rule-driven software takes a lot of time – yours and your consultant's. Implementing CommissionCalc, in contrast, is much more efficient because:

- It expresses commission rules via Microsoft Excel® logic. That is, we enter Excel formulas to compute your commissions for one invoice. Then CommissionCalc automatically copies those formulas to every invoice. Since it is much faster to build an Excel spreadsheet than to program commission rules with traditional languages, you need less consulting.

- CommissionCalc's price includes standard interfaces to many accounting systems. Traditional rule-driven commission software makes every user buy a custom accounting system interface.

- CommissionCalc's standard template implements common commission plans. If this includes your plan, no configuration is needed; CommissionCalc can be implemented just like fixed-function software, even if the true fixed-function software available for your accounting system cannot handle your rules. If your rules are similar, but not identical, to those in the standard template, a small amount of consulting might adjust it to fit your needs.

- We configure your rules at our office. Although on-site consulting is available, avoiding it saves time and eliminates travel cost. To support remote implementation, a single CommissionCalc command automatically exports, compresses, encrypts, and transfers your test data to us.

In fact, implementing CommissionCalc is so efficient that we can usually do the job for a fixed price, eliminating the risk inherent in hourly consulting.

Economical Software Licenses

CommissionCalc software license and annual maintenance prices are far lower than traditional rule-driven commission software. You can see our price list at:

http://www.commissioncalc.com/Prices.html

To learn the total cost to automate your commission calculations, including a software license, implementation services for your commission plan, and annual maintenance, please call us at 888-962-6667 or email sales@CommissionCalc.com.