

CommissionCalc Automates Food Industry Incentive Plans

Commissions and rebates in the food industry are among the most complex and time-consuming of any business. There are several reasons for this, including:

- There can be thousands or tens of thousands of sales transactions each month.
- There are many recipients to be paid on the same sale: commissions for outside brokers and internal salespeople as well as rebates for customers and buying groups.
- Because both customer relationships and rep contracts are often individually negotiated, commission and rebate plans can be *very* intricate and contain many exceptions and special cases.

That is, each of the many sales transactions is used in several different computations, for several different recipients' reports, each one potentially using different rules. Using spreadsheets and manual procedures to process all of this data, with all of these rules, takes days, and there are many errors. Gartner estimated that bonuses and commissions computed manual are typically overpaid by 8%, because recipients are better at finding errors in the vendor's favor than those in their own favor.

This paper describes many of the rules we have encountered computing commissions and rebates for the food industry.

Who gets paid:

Commissions are paid to outside sales reps and brokers, as well as to employees. The employees may be paid on:

- Their own sales
- In the case of managers, sales of employees who report to them
- Sales of outside reps

Or any combination of the above.

Rebates are paid to customers. Since many companies purchase through buying groups or coops, these get rebates, too. Rebates on the same sale may be paid to the customer, the group, or both. There must, therefore, be an automatic way to connect a rep to the right sales employee and a customer to the right buying group.

What determines the rates:

Each type of recipient will have a different set of rules and, especially for outside reps, each individual may have different rules. Companies in all industries often have commission rates that vary based on salesperson, customer and product. Commissions paid by food companies are also affected by discounts, among other factors. The margins on food are

slim, so the reps are often required to share in any discounts they offer. This may be done by lowering the commission rate or by subtracting part of the discount – usually 50% - from the commissionable amount. To make things more complicated, there are some discounts that don't affect commission, for example discounts offered by manufacturers. The data must include the list price, so the discount can be calculated, and include a clear distinction between discounts that do and don't affect commissions.

Packaging frequently affects both commission and rebate rates. For example, bulk sales will have different rates from pre-pack.

There are frequently promotions, and commission rates will be different during the time the promotion is in effect.

Both commission and rebate rates may be a percent of sales or margin, or cents per unit, where a unit may be a single item, a case or a pound, and these rules will vary from one salesperson, customer, buying group and product to another. Each salesperson involved in an order will have a different rate, and customers will have different rates from groups.

Figure 1 shows typical commission rules for food and beverage companies

Rep ID	Cust. ID	Cust. Type	Item #	Prod. Type	Pack Size	Disc %	Invoice Date Range		Basis 1 -> Revenue 2 -> Quantity 3 -> G.P	\$/case	% of Sales
							Start	End			
100	901	*	*	ABC	*	10%	*	*	2	.50	
100	*	*	1234	*	CS	*	*	*	1		15%
100	*	*	*	*	*	*	*	*	1		12%
200	*	DIST	*	DEF	*	*	*	*	2	1.00	
200	*	*	*	*	*	*	*	*	1		10%
*	*	*	*	*	*	*	*	*	1		5%

Figure 1: Rates based on many factors

All or part of the commission or rebate rate may be based on the attainment of sales goals and there may be several tiers, each with a different rate. The goals will be in sales dollars, units, or gross margin, and apply to a single month, the quarter to date or the year to date. The rates may be cents per unit or percentage of sales or margin dollars.

Figure 2 shows tiered rebate rates based on quantity shipped

Customer	Group	Lbs shipped	\$/lb	% Rev.
*	GROUP1	700		0.50%
*	GROUP1	5,000		0.75%
*	GROUP1	12,000		1.50%
*	GROUP1	*		2.00%
12345	*	10,000	0.10	
12345	*	100,000	0.20	
12345	*	*	0.30	

Figure 2: Tiered Commission

Please see our paper on quotas and tiers for more details on this sort of commission or rebate.

What’s the base amount:

The most frequent bases are sales dollars or cents per piece, lb., case, etc., both for commissions and rebates. Commissions may instead be based on gross margin.

When are commissions and rebates paid:

There are four common commission payment triggers: Pay when

- the invoice is cut
- full payment has been received
- either full or partial payment has been received
- part when the invoice is created and part when payment is received.

However, these aren’t the only methods. For example, some companies pay a fixed amount of time after the invoice is cut, or pay when their customer resells the product.

Although paying commission on invoicing rewards the salesperson quickly for making sales and is, therefore, a good motivator, it may cause cash flow problems. In addition, there is a risk that the salesperson gets paid but the customer doesn’t pay the invoice. Therefore, when this method is used, commission may be charged back if payment is received late or written off. A few companies charge back commission in tiers; for example, half of the commission may be charged back if the invoice isn’t paid in 90 days and the balance if the invoice is still open at 120 days. Paying on invoicing is the second most common method.

Paying commission on receipt of full payment avoids the problem of non-payment and partial payment by the customer. If salespeople help in collections, paying on full payment encourages them to get their customers to pay promptly; reducing commission if payment is too late provides a further incentive. When an objective of the plan is motivating salespeople to help collect amounts due, salesperson commission reports should show open invoices and the commission which will be paid when they are paid off, plus any amount

which will be forfeited if payment is not received by a date specified on the report. Paying on receipt of full payment is the most common method.

Paying on receipt of partial payment by the customer is not as accurate as the other methods because there's no indication in the accounting system of which part of an invoice is being paid. If the customer is paying for freight only, one would want not to pay any commission; if they're paying for one product and not another, one would want to use the correct product's commission rate. But accounting software typically doesn't apply payments to individual invoice lines, so the partial payment must be pro-rated among all items sold on the invoice.

The benefit of this method is that it may seem fairer to the salesperson, especially if almost the entire invoice has been paid or if part of the payment is delayed due to a dispute which the salesperson is not expected to resolve. Sometimes this method was originally used because it was easy to compute – salespeople got a percentage of total cash received from their customers – and it is retained when more sophisticated commission software makes it unnecessary. Although this is less common than either of the above methods, some companies do pay on receipt of partial payment.

Lastly, a manufacturer may sell to a distributor and pay the distributor a rebate when the product is sold to the final customer. These end-user sales are not in the manufacturer's accounting database. Instead, the commissions are paid based on a file provided by the distributor identifying end-user sales for the month. Similarly, commission may be paid to the company's salesperson when goods are sent from a customer's distribution center to one of their stores, or sold to an end user. When one of these methods is used, it typically applies only to sales to certain customers.

Rebates are generally computed on invoicing. Since the recipient is also the one paying the invoice, non-payment is not an issue. However, payment schedules can vary, with some rebates paid monthly, some quarterly and some annually, depending on the customer and group.

Figure 3 shows rebates paid at different frequencies.

Customer or Group	Item #	Product Type	Invoice Date Range		Basis 1 -> Sales 2 -> Quantity 3 -> Margin	\$/case	% of sales	Payment frequency
			Start	End				
901	*	*	*	*	2		10%	M
GROUP1	*	ABC	*	*	1	.20		Q
GROUP1	*	*	*	*	1	.15	3%	Q
*	*	*	*	6/30/10	1		3%	Q

Figure 3: Variable Payment Frequency

Because of the number of payees, food companies need to be able to import their commission and rebate payment data into the Accounts Payable module of their accounting system. Most accounting systems have a way to import data like this from a flat file or XML

file. This requires associating a vendor ID with each rep, customer, and group so invoices can be automatically created for all of these.

Figure 4 shows typical data for import into an ERP system's Accounts Payable

Type	Vendor	Acct	Date	Inv #	Amount
1	17409	500-1234	7/31/2010	JULY-10	\$3.84
1	12345	500-1234	7/31/2010	JULY-10	\$4,837.95
1	12346	500-1234	7/31/2010	JULY-10	\$86.25
1	23456	500-1234	7/31/2010	JULY-10	\$9.00
1	947	500-1234	7/31/2010	JULY-10	\$6.00
1	GROUP1	500-1234	7/31/2010	JULY-10	\$1,000.00

Figure 4: Data for Import Into the Accounting Database

And, as if all of the issues above weren't enough, these rules keep changing with varying market conditions, new brokers, new customers, and renegotiations.

Rule-driven software – and *only* rule driven software – can deal with these complexities. CommissionCalc is the only software that can handle all variations of commission and rebate rules, is easy to set up and use, and is affordable for companies of all sizes. Many food and beverage-related businesses are saving thousands of dollars and days – or weeks – of work each month by using CommissionCalc.

For more information about CommissionCalc, contact sales@commissioncalc.com, browse to www.CommissionCalc.com, or call 888-962-6667 x22.