

CommissionCalc Automates Incentive Plan Quotas and Tiers

Commissions are often based on quotas and tiers. If the rate increases when achievement does, as is usually the case, this encourages salespeople to aim high and generates enthusiasm, while rewarding high producers. Less often, the rate decreases for high sales volume, which is sensible in businesses where very high sales can be due to luck and can lead to unreasonably high commissions.

However, there are many different ways quotas and tiers can be defined. This paper describes some of the variation we have encountered and automated with CommissionCalc.

Quotas and Tiers

Tiered commission plans pay multiple rates, with the rate depending on some measure of achievement, usually sales volume. Quotas are tiers with a single breakpoint. This paper will sometimes use “tiers” to refer to both types of plan.

Achievement

Although, as stated above, achievement is usually sales volume, gross profit or another objective can be used instead. Regardless of what is being measured, different companies measure the achievement in different ways.

When Is an Achievement Recognized?

Usually achievement is based on one of the following:

- the invoice date
- the date the invoice was fully paid off
- the date any payment was received, whether full or partial.

Typically, the same date is used for measuring achievement as for determining when commission is payable. However, this is not always the case. For example, we have seen commission based on invoice date but achievement based on booking date.

Is More Than One Measurement Made?

Often companies use the commission recipient’s total sales volume to determine what rate to pay. However, it is also common to measure multiple achievements. For example, there can be a different tier table for each product line. We have even encountered a plan with a different tier table for each customer, and the start date for measuring achievement for each customer is the anniversary of that customer’s first purchase.

When multiple tier tables are used, they can be independent of one another or they can interact. For example, another plan has a quota for each product line; for each unmet quota, the rate on all products is reduced by a fixed percent.

How Long is the Measurement Period and When Does It Start?

Sometimes the quota period is the same as the commission period, usually monthly. Other companies use an annual quota or, less often, another time period such as quarterly. When an annual plan is used, the start date is almost always January first of the current year. However, a rolling twelve month period can be used or achievement in the prior year can be included, although those variations are rare. Even more unusual is one plan we automated which measured each salesperson's lifetime to date sales.

The advantage of monthly measurement is that a weak start to the year does not make a recipient feel that he or she will never catch up, in which case the incentive plan no longer motivates him or her. The advantage of annual measurement is that it rewards salespeople the same regardless of whether their sales are steady or variable; it is not unheard of for a salesperson on a monthly plan to defer a sale from the end of a poor month to the following month, because a higher rate may be paid in the second month.

What Is Included in Achievement?

Usually certain invoiced amounts are excluded. Examples are freight, tax, samples, and promotional items such as retail display cases for the company's product. However, sometimes there are no exclusions; typically this is because including everything simplified computation when it was done manually and the company decides not to change the plan when computation is automated.

Some companies apply a variable multiplier to sales when computing achievement. For example, sales of a product line with low profit margins might be multiplied by 50% while most sales are included at 100%, but sales of a new product line are multiplied by 150%.

Rates

Just as there are different ways of measuring achievement, so too there are different ways of determining rate.

Is There Only One Tier Table?

Most companies have different tier tables for different recipients or different classes of recipients. For example, inside salespeople may have a different rate structure from outside salespeople while regional sales managers have yet another table. Often the tier table for each salesperson is based on the potential in his or her region. Less often, the same table is used for everyone.

How Is the Tier Table Structured?

Some companies pay no commission until a certain level of achievement is reached, perhaps because they feel that a recipient who did not reach that level hasn't justified his or her base pay. Others pay from the first sale, on the grounds that this better

motivates salespeople who haven't yet reached their quota including, when a monthly quota is used, those who are having an unusually bad month.

Usually an increased commission rate applies only to sales above each cutoff point. For example, if a salesperson has a monthly quota of \$100,000 with a rate of 3% below that quota and 4% above it, selling \$120,000 will result in a commission of $3\% \times \$100,000 + 4\% \times \$20,000 = \$3,800$. Occasionally, the highest rate is applied to all achievement, starting with the first sale in the period. We have even automated a mixed plan; a salesperson might get 3% on the first \$100,000, then 4% on the next \$49,999 but, if the total is \$150,000 or more, then the 4% is applied from the first sale.

Usually the rate is higher at higher sales volume. However, at a few companies the rate declines when volume increases.

Rule-driven software – and *only* rule driven software – can deal with these complexities. CommissionCalc is the only software that can handle all the variations of commission and rebate rules, is easy to set up and use, and is affordable for companies of all sizes.

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