

# Basic Sales Compensation Terms

by Hal Slater

Since sales is still more art than science, the performance of individuals may vary greatly. The factors that make a difference are intangible, with inner 'drive' and desire ranking high as determinants of success.

For these reasons, salespeople perform best under a merit system and, for business purposes, commissions (a set percentage of the sales) are a good way to calculate the value of performance.

Even for the best performers, economic and market forces combined with long sales cycles can result in an irregular cash flow under a straight commission pay plan. Maintaining a household and supporting a family can be extremely difficult under these conditions. This, in turn, can make it difficult to attract the more stable type of individual you want for a great sales team.

As an alternative to the 'feast or famine' cycle of straight commission, there are three common plans in use. Let's begin with a definition of terms used in sales compensation

plans.

- Salary plus commission (or bonus)

Under this plan, the salesperson receives a regular salary like regular employees as well as a payment based upon some aspect of sales performance over a given period.

- Draw against commission

Under this plan, the salesperson receives regular advances against future commissions. There is often an established limit to the total to be advanced and, if employment ends with a negative balance, the deficit is usually not recoverable.

- Guarantee against commission

Under this plan, the salesperson receives a minimum periodic income even if commissions do not reach that level. This is similar to a draw but the payments do not accumulate to

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be repaid against future commissions.

Each plan has many ramifications, more than can be covered in one article. In general, sales positions that require a high level of technical skill or training command higher salaries and sales positions that require more personal selling skills command higher incentive compensation. Thus, many members of high tech sales teams often earn high salaries, but their bonuses may be less than 25% of their earnings. Lower tech sales such as automobiles, some home improvements and others require very little technical training and commissions may be 100% of earnings.

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