Sales Compensation Plans

By Stuart W. Margolis, CPA, MT & Joe Becker, CPA

Published in GAA Update, Feb. 2009

During these difficult economic times, there is mounting interest in creative sales compensation plans. Our experience and recent discussions with printers nationwide (*) have shown that there may be as great a variety of sales compensation plans as there are numbers of printing companies. Because much of the printing industry is comprised of creative, individualistic entrepreneurs, each printing company has a unique culture. A single "one size fits all" approach to sales compensation thus simply will never apply to the printing industry. There are, however, some more common approaches, including:

- Commissions based on Sales. The commission rate varies widely, from 3% to 10%, depending on the sales size of the company, the recurrence of the sale, and the material cost in the job. If the plan is Commission Only, the draw is adjusted periodically, to reflect the active commission.
- Commissions based on Value Added. Again, the commission rate varies widely, from 4.5% to 14%, depending on the size of the company and the recurrence of the sale.
- Both of the above, including a base salary plus a commission.

Infinite variations are possible within these three broad approaches. Let's discuss some of them.

"A single 'one size fits all' approach to sales compensation …will never apply to the printing industry. There are, however, some more common approaches…"

Basing Value Added Commission on Actual Results vs. the Original Estimate:

For instance, if the bindery is too busy to do the work in-house as planned and must be outsourced for finishing, the estimated costs will differ from the actual results. An example of this follows:

(Continued)

Washington, DC
10001 Derekwood Lane, Suite 210
Lanham, MD 20706
888.577.1717 p 301.577.1313 f 301.577.0431

Philadelphia
555 City Line Avenue, Suite 460
Bala Cynwyd, PA 19004
888.577.1717 p 610.667.4310 f 610.667.2099

Sales Compensation Plans

Stuart W. Margolis, CPA, MT & Joe Becker, CPA *(Continued)*

	Estimates:	Actual:
Sales Price	$10,000	$10,000
Materials	$3.500	$3.500
Outsourcing	$0	$1,500
	$3,500	$5,000
Value Added *VA)	$6,500	$5,000
9% VA Commission	$585	$450

So should you pay the commission based on the estimate or actual results? Many companies pay on the estimate. Others say that if the finishing has to be outsourced because they are too busy to meet the deadline, then the company is affected, and the sales person should participate in that reality. Again, there is no one single "right" answer here. This is an example of how company culture, many times, determines the type of plan used.

Incorporating Target Selling Price in Your Sales Compensation Plan:

Consider next a wrinkle we call "The Bump." It works like this: To the extent the salesperson sells a job above target selling price (TSP), he/she will participate in the amount over TSP. This "Bump" could be anywhere from 10% to 50% of the excess. Here are two examples of the same sale, with and without the "Bump" included in sales compensation:

With "Bump":

TSP - $5,000 with 7% commission and a 25$ Bump"

Sold for	$6,000	
Target Selling Price (TSP)	$5,000	
BUMP	$1,000	
Commission (7% X $5,000)	$350	
BUMP (25% X $1,000)	$250	
Sales Person with BUMP receives:		$600

Without "Bump": Sales Person rewceives Commission (7% X $6,000): $420

(Continued)

Washington, DC
10001 Derekwood Lane, Suite 210
Lanham, MD 20706
888.577.1717 p 301.577.1313 f 301.577.0431

Philadelphia
555 City Line Avenue, Suite 460
Bala Cynwyd, PA 19004
888.577.1717 p 610.667.4310 f 610.667.2099

Sales Compensation Plans

Stuart W. Margolis, CPA, MT & Joe Becker, CPA *(Continued)*

Bonus Plan Payments for Exceeding Expectations:

Frequently, we see bonus plans that pay anywhere from $1,000 to $10,000 to sales persons who exceed their pre-set goals. These bonus plans may be paid quarterly and/or annually – again, depending upon the company culture.

Conclusion:

These are just a few of the possible sales compensation programs available to printers. Certainly, there are many more alternatives that we have not covered in this article. Printers seeking to appropriately reward their sales staff yet survive in today's economy need to carefully consider what works best within the company culture you have established.

(*) "Sales Compensation" was a recent topic of discussion for "A Cup O' Joe," the monthly conference call discussion for printers sponsored by MargolisBecker.

MargolisBecker, The Business and Management Advisors, is a CPA firm specializing in the graphic arts industry.

Whatever your goals and needs, we have the solution. Our services include strategic planning, business valuations, mergers & acquisitions, turnaround management, accounting, auditing and tax compliance. The Company has prepared the PIA/GATF Ratio Studies since 1960.

If you have any comments or questions, you may reach us at:

888-577-1717
or
talk.to.us@margolisbecker.com

Joseph A. Becker
CPA

Stuart W. Margolis
CPA, MT

Washington, DC
10001 Derekwood Lane, Suite 210
Lanham, MD 20706
888.577.1717 p 301.577.1313 f 301.577.0431

Philadelphia
555 City Line Avenue, Suite 460
Bala Cynwyd, PA 19004
888.577.1717 p 610.667.4310 f 610.667.2099