CommissionCalc Automates
Service Company Incentive Plans

Service businesses have unique commission requirements that companies selling product don't have to deal with, in addition to other requirements which overlap commissions on product. For example, services may be sold on long-term commitments, such as contracts or subscriptions. Similarly, consulting companies and other service businesses may make a sales-based payment to the person who provides the service.

This paper describes many of the rules we have encountered computing commissions and rebates for service businesses. For a description of commission requirements which service businesses share with manufacturers and distributors, please see our white paper on their commissions. Any business may use quotas or tiered payments, as described in our white paper on that subject.

Who gets paid?

Because there are many types of services, there are many variations on who gets commission on a sale. In some businesses, such as real estate, there are two salespeople – one who deals with the seller and one with the buyer. Some employment agencies and project staffing companies do this as well. There may be sales teams, with each member getting a specified percentage based on what function he performed in the sale, perhaps with the function changing from sale to sale. There may be others who receive commission even though they're not in Sales, such as a technical expert who helps with the sale. When commission is split in this way, computations depend on knowing who was involved in the sale and what each one's role was.

Because of the long-term nature of some sales, the salesperson involved at the end of a contract may not be the same as the salesperson who sold it initially. Typically, the first will be paid until he or she leaves the company and the second will be paid from the time he or she starts, or perhaps a fixed amount of time after that, to allow for ramp-up time. Because payment timing varies tremendously, as will be discussed below, the person who receives each piece of the commission might be based on the transition date compared with the order date, contract date, invoice date or payment date and might depend on contract terms such as the length of the agreement.

What determines the rates?

As discussed above, the rate may vary by salesperson (or other recipient) and the role that salesperson played in the sale. It will very often also vary by type of service. On long contracts, the commission rate usually decreases over time. The first year of a contract has the highest rate, the second year is lower. Usually after two or three years the rate either remains the same or disappears. There may be higher rates, or bonuses, for sales to a new customer or sales with a high profit margin, or a penalty for invoices which are paid slowly.

The rates may be tiered, based on cumulative sales, bookings or paid invoices year-to-date. Usually some types of sales are excluded from these accumulations. And, like everything in the world of commissions, there are innumerable variations on quotas and tiered rate. For example, CommissionCalc has automated a plan for a service company which bases their rate on each salesperson's lifetime to date sales.

What's the base amount and when is it paid?

The commission is usually a percentage of sales, but the definition of "sales" varies widely. For short-term or one-time services, it will be the sales amount invoiced or paid, and payment will be made shortly after the service is rendered. For long-term contracts and subscriptions, sales might be the entire amount of a contract or a fixed portion of the contract – maybe one month's or one quarter's worth. Commission computed on entirety of long-term contracts is often paid in pieces. For example, a payment may be made when the first invoice is cut, or the first invoice is paid. Subsequent payments may be made at fixed intervals, such as every three months, or as additional invoices are produced or paid, or when certain benchmarks are met. The last payment may be made according to the same schedule, or when the contract is finished, or when the first year is finished. The contract being "finished" might mean the term of the contract has ended or all payments have been received for the contract. In some cases the amount is adjusted at the end due to changes in the contract over its life.

Contract data, such as the value, length and salesperson, are usually kept in a different part of the database from the sales and accounting data, or may even be in a completely separate databases, maintained by different software. Commission calculations therefore have the additional burden of merging the sales data with the contract data.

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 rules, including combining data from multiple databases; is easy to set up and use; and is affordable for companies of all sizes. Many service businesses are saving thousands of dollars and days of work each month by using CommissionCalc.

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