

# SETTING UP SALESMAN COMMISSION BASIS

Since the commission structure may vary for each salesman, certain information must be entered for each salesman to specify the definition of the salesman's commission formula.

## Commission Basis

Commission entries can be generated at several points in the life of the order.

- When the order is placed
- When the customer's invoice is generated
- When the customer's invoice is paid
- Some combination of the above such as half when order is entered, half when paid

To indicate when this particular salesman's commission is to be generated, enter the percentage you want to pay at each point. The totals of these percentages must add up to 100%. So, if you want to pay half when the order is entered and the remaining half when the customer's invoice is paid, you would enter 50% for the "when order is placed" and 50% for "when order is paid".

You also need to specify the basis of the commission calculations:

- Sales dollars
- Profit dollars (most common)
- Discount code

## Reserving a Minimum Amount of Profit for the "House"

You may require that the house receive a certain portion of the profit or a certain amount before or instead of the salesman's commission. You will need to specify a formula to determine how this will be calculated.

**BASIS OF CALCULATIONS** - If you want to require that the house get a certain portion of the profit from an order before the salesman's commission is calculated, enter the basis for this calculation. The following options are available:

- Specific \$ - The house gets a specific dollar amount.
- % of sales - The house gets a certain percentage of the sales price.
- % of profit - The house gets a certain percentage of the gross profit.
- No house portion reserved - Nothing is deducted for the house.

**HOUSE PORTION** - Enter the dollar amount or percentage of sales to be subtracted from the gross profit.

**CALCULATION METHOD** - Indicate the method to be used for adjusting the salesman's commission.

- Calculate commission on adjusted gross profit - The house's portion is calculated and deducted from the gross profit. The adjusted profit is then multiplied by the commission percentage to get the commission amount.
- Calculate commission on full gross profit; salesman gets smaller of this result & the adjusted gross profit - The house's portion is calculated; an adjusted gross profit is calculated by subtracting the house's portion from the full gross profit. The commission is calculated as usual using the full gross profit. The

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salesman's commission is set equal to the smaller of the calculated commission and the adjusted gross profit.

In both calculations, the "Adjusted gross profit" is defined as the full gross profit on the order or invoice less the portion reserved for the house.

The "reserve for the house" feature is illustrated by the following examples:

EXAMPLE 1: You want to deduct \$25 from the commission for each order to cover overhead involved in processing the order, postage, etc.

Basis of calculations = Specific \$

House portion = \$25

Calculation method = calculate commission on adjusted gross profit.

If the profit on the order is \$25 or less, the house gets everything and the salesman gets nothing.

If the profit is more than \$25, the commission is calculated on the total gross profit less the \$25. So, if the total gross profit is \$180 and the salesman is paid 40% of the adjusted gross profit, the adjusted profit would be  $\$180 - 25 = \$155$  and the calculated commission would be  $\$155 \times 40\% = \$62$ . The salesman gets \$62 in commission.

EXAMPLE 2: You want to deduct 5% of the gross profit for overhead.

Basis of calculations = Gross Profit %

House portion = 5%

Calculation method = Calculate commission on adjusted gross profit

If the gross profit amount is \$100 and the commission rate is 50%, the house gets \$5 and the salesman gets 50% of \$95 or \$47.50.

EXAMPLE 3: You want to insure that the house gets the first 15% of sales. If gross profit percentage on order is less than 15%, salesman gets no commission.

Basis of calculations = % of sales

House portion = 15%

Calculation method = calculate commission on full gross profit.

If the sales amount is \$200 and the gross profit is \$100, the gross profit percentage on the order is 50%. The house must get at least \$30 (15% of \$200). If the salesman is paid 40% of profit, the calculated commission is \$40. The adjusted gross profit is  $\$100 - \$30 = \$70$ . Salesman gets \$40 in commission, which is the lesser of the adjusted gross profit (\$70) and the calculated commission (\$40).

If the sales amount is \$200 but the gross profit is only \$50, the calculated commission would be 40% of \$50 = \$20. The adjusted gross profit would be  $\$50 - \$30 = \$20$ . The salesman would get the smaller amount of \$20.

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## Commission Calculation Formula

You may base the percentages used to calculate the commission amount on a certain sales goal. The following options are available:

- Accumulated sales dollars
- Accumulated profit dollars
- Profit percentage on an order/invoice

For example, a salesman may be paid 40% of gross profit until he or she has accumulated \$25,000 in sales for the company. Then, he or she will be paid at a 50% rate thereafter. The accumulated amounts can be reset each year if you wish.

Or, the salesman gets no commission if the gross profit percentage on an order is less than 20%, a rate of 40% if the gross profit percentage is between 20% and 40%, and a rate of 50% if the gross profit percentage is 40% or more.

The commission table itself can have up to 10 levels. For each level enter the following:

- Range of values for that level of the table.
  - In the first example above, the "from" value on the first row of the table will be zero and the "to" value will be "25000". The "from" value of the second row will be calculated as 25001 and you would leave the "to" value blank to indicate that this is the highest level.
  - In the second example, the "from" value on the first row would be zero and the "to" value would be 20.00. The "from" value on the second row would be calculated as 20.01 and you would enter a "to" value of 40.00. The "from" value on the third row would be calculated as 40.01 and you would leave the "to" value blank to indicate that this is the last level.

If you use either accumulated sales or profit as the basis of your ranges in the table, you can indicate the point at which the data is to be accumulated---when the order is placed or when the order is invoiced. If your ranges in the table are based on the profit % of an individual order or invoice, it doesn't matter how you answer unless you want to accumulate either of these totals for historical purposes.




The current value of the accumulated sales and profit are also available for you to change. If you want to reset these goals periodically, you may clear out the values accumulated to date. You may also occasionally need to correct or initialize the values on file.

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## Other Requirements

There are a couple of other requirements you can assign to the calculations:

- Quota/Draw - This amount will be shown on the "Commission to be Paid" report along with the amount the commissions earned are above or below the amount.
- Minimum - You may set a minimum sales or profit amount. If the commission is less than the minimum, no commission will be calculated.
- Additions to reserve account - You may set aside some of the commission earned to a reserve account to cover samples or other expenses. This formula sets the percentage and maximum values for this amount.
- Deposit prerequisite - If you pay any commission when the order is placed, you may restrict these payments to be made only if a deposit is received from the customer.




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### Update Salesman's Commission Basis

Salesman Number:  

**When is commission paid? Percentages must add up to 100%.**  
 When order is placed:  %    When invoice is generated:  %    When invoice is paid:  %  
 Commission basis:     Sales Dollars     Profit Dollars     Discount code

**Define any portion of profit reserved for house:**  
 Basis of calculations:     Specific \$     % of sales     % of gross profit     No house portion reserved  
 House portion:    Percent:  %  
 Calculation method:    Both methods use Adjusted gross profit = Full gross profit - House's portion  
 Calculate commission on adjusted gross profit  
 Calculate commission on full gross profit; salesman gets smaller of this result & the adjusted gross profit

**Commission calculation formula:**  
 Basis of ranges in table:     Accumulated Sales Dollars     Accumulated Profit Dollars     Profit Percentage on order/invoice

Commission table:

For Profit % of			Commission %
From	<input type="text" value=".00"/>	<input type="text" value="999.99"/>	<input type="text" value="40"/>
to			
From	<input type="text"/>	<input type="text"/>	<input type="text"/>
to			
From	<input type="text"/>	<input type="text"/>	<input type="text"/>
to			
From	<input type="text"/>	<input type="text"/>	<input type="text"/>
to			
From	<input type="text"/>	<input type="text"/>	<input type="text"/>
to			
From	<input type="text"/>	<input type="text"/>	<input type="text"/>
to			
From	<input type="text"/>	<input type="text"/>	<input type="text"/>
to			

Point at which totals are accumulated:     When order placed     When invoiced  
 Current totals:    Sales: \$     Profit: \$

**Other requirements:**

Draw or quota:     Per period

Minimum order:     Orders or invoices lower than this will be excluded from commission calculations.

Basis of minimum:     Sales     Profit

Reserve percentage:     This percentage of commission will be automatically deposited into reserve account.  
 Maximum reserve balance:     Automatic deposits to reserve account will stop when this balance is reached.

Deposit prerequisite:     Only pay commissions based on orders if deposit is received

NOTE: The salesman must already be on file before you set up the Salesman's Commission Basis.

Save
Delete
Reset
Exit




Illustration 1: Salesman Commission Setup Screen

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## Questions on Special Situations



- I pay a different percentage for drop ship orders and fulfillment orders.
  - You will have to set up two salesman numbers. Use one on drop ship orders and one on fulfillment orders. You can give them both the same master salesman number so that you can get sales reports based on combined volume.
- I want to pay the sales manager a commission on each order in addition to what I pay the salesman.
  - We call this a "split" commission. You will need to first check the Commission system option that asks "Do you regularly split commission between salesmen?".
  - Then, assign the salesman manager a salesman number if he or she doesn't already have one. Set up a commission basis for the sales manager under that salesman number. It can have a zero commission percentage if no orders are ever processed under that salesman number by itself.
  - Next, select the option to "Update 2-salesmen commission basis" from the menu. Enter the salesman number for the regular salesman and the one for the sales manager. Define the commission formula to be used when the combination of these two numbers are used.
  - If you have a situation where sometimes one salesman is the primary salesman and sometimes that number is the secondary salesman, you will need to set up both combinations. For example, sometimes salesman 001 is the primary salesman and sometimes salesman 002 is. In this situation you need to set up both combinations. Set up "001/002" and "002/001". The formula for the "001/002" combination will be used when salesman 001 is the primary salesman and the "002/001" combination will be used when salesman 002 is the primary salesman.

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## Update 2-Salesmen Commission Basis

First Salesman:   

Second salesman:   

When is commission paid? Percentages must add up to 100% for each salesman.

For salesman #1	When order is placed: <input type="text" value="0 %"/>	When invoice is generated: <input type="text" value="0 %"/>	When invoice is paid: <input type="text" value="100 %"/>
For salesman #2	When order is placed: <input type="text" value="0 %"/>	When invoice is generated: <input type="text" value="0 %"/>	When invoice is paid: <input type="text" value="100 %"/>

Define any portion of profit reserved for house:

Basis of calculations:  Specific \$  % of sales  % of gross profit  No house portion reserved

Commission calculations:

Basis of ranges in table:  Accumulated Sales Dollars  Accumulated Profit Dollars  Profit Percentage on order/invoice

Commission table for Salesman #1:

For Profit % of			Commission %
From	to	999.99	Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max

Commission table for Salesman #2:

For Profit % of			Commission %
From	to	999.99	Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max
From	to		Max

NOTE: The salesman must already be on file before you set up the Salesman's Commission Basis.

Save

Delete

Reset

Exit

Illustration 2: 2 Salesman Commission Setup Screen