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Which Sales Commission Structure Results in the Best Performance?

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The short answer is it depends on you, your business, and your goals. There is no magic formula for commission planning. And while that might sound like a cop-out, I've been through it several times in previous companies and it's invariably a test-driven process.

However, I can point you to a structure that best fits the type of business you run. I won't cover them all, but I'll outline five of the most common and why each might benefit you. You can then adapt the structure to the particular needs of your business.

Please remember this is a guide – a starting point – and you'll need to tweak the variables through testing and feedback until you nail the perfect fit.

Ready? Let's get it on...

#1

Flat rate commissions

The simplest commission structure, commonly found in property, retail, and insurance. Here, you pay a flat amount or rate on any commissionable event. For example, if a sales rep sells a product at $1,000 and the flat rate commission per sale is 5%, they get an extra $50 in their paycheck.

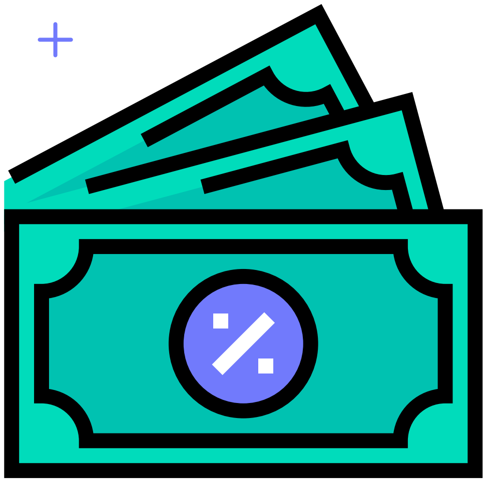
The advantage of this structure is its simplicity. It's easy to calculate, easy to understand, and easily fixed if things go wrong. Ironically, simplicity is also its disadvantage. All sales, regardless of size, are rewarded with the same commission, so it can affect volume, which in turn, may affect your bottom line. The alternative is to apply a flat rate to net sales income, which incentivizes reps to focus more on profit than revenue.

If you're selling a simply-priced product or service that's always in demand, easily understood by your target market, and has a short sales cycle, a flat rate would be a good

starting point. If you only meet some of these criteria, or offer a range of prices and products, then consider applying the flat rate to net sales income to produce better results.

#2

Tiered commissions



This is when things start getting complex. In its simplest form, a tiered commission structure pays more when reps sell more. For example, tier 1 might pay 10% for the first 1,000 sales. Tier 2 then pays 15% for 1,500 sales, tier 3 pays 20% for 2,000 sales, and so on. Whether the higher rate applies to total revenue or just that tier (see #4), is up to you.

You can tweak this structure further with **accelerators**. These reward other behaviors such as cross-selling, up-selling, renewals, and customer acquisition. Combined with revenue or volume tiers, this is a flexible, nuanced structure that works for large, B2B businesses that have a strong sales focus or are expanding into new territories.

While a tiered structure is a sophisticated and powerful way to drive growth, there are some drawbacks. For one, it increases complexity, which can then lead to confusion among staff, and often, mistakes in commission payments. To avoid this, you'll need dedicated commission software to manage the plan – Excel just won't cut it – and that's an expense you'll have to factor into your budget.

#3

Event-based commissions

Commissions can incentivize any behavior you want. If your product or service has a particularly long sales cycle, is niche, high-value, depends on cultivating long-term relationships, or prioritizes customer experience, use event-based commissions to reward your staff for doing the right thing.

You might pay a commission on customer outreach, timing of deals, attending training, resolving customer complaints, and so on. Events-based commissions are particularly useful when you want your employees to focus on customer experience over revenue or profit.

This structure might not have an immediate impact on your bottom line, but the long-tail effect on customers, company culture, and brand recognition make this a worthy supplementary or ad hoc commission structure for any business.

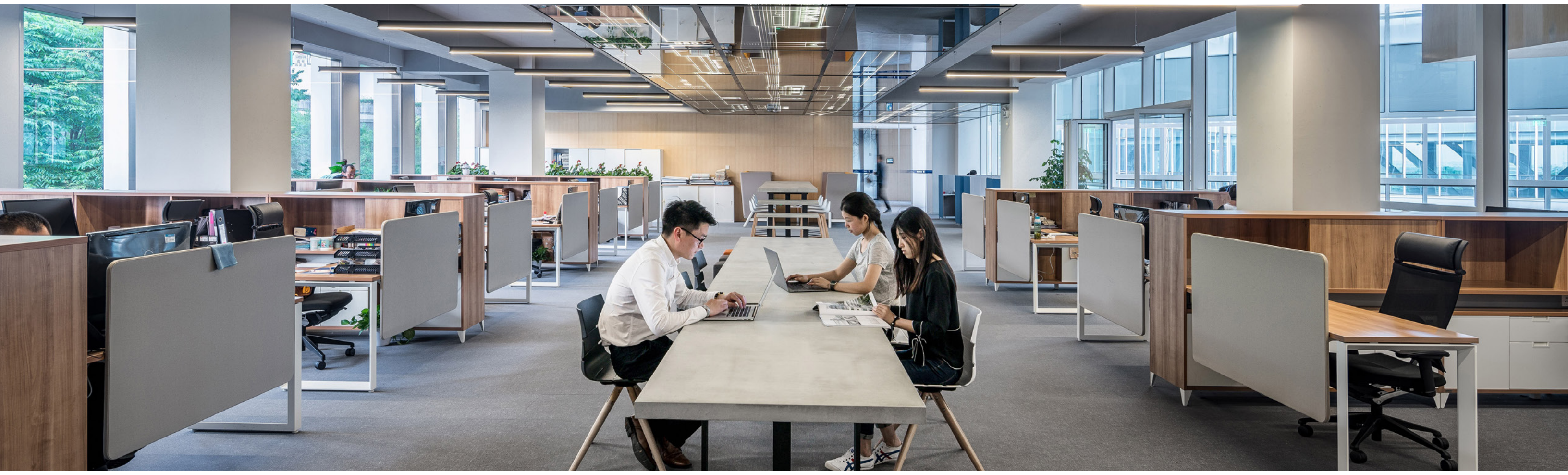
#4

Marginal (tax-rate) commissions

This is a tiered commission structure where enhanced rates only apply to the results achieved in that tier. It's similar to how taxation works, which is why it's often referred to as a tax-rate commission structure.

As well as using it to generate higher revenue, you can also use a marginal commission structure to reward volume, profitability, contract length, or any other metric you can think of. You can even define your own such as a points-based system for selling a specific product over others.

A marginal commission structure is [ideal for SaaS businesses] that target reps on monthly recurring revenue (MRR). You could structure tiers around the length of customer commitment, for example, rewarding reps who've signed clients up for longer terms.



#5

Trailer commissions

Trailer commissions reward reps for renewals or continued use of a product or service past an initial term – usually on the same commission rate, too. Your rep will typically have to work harder to earn a trailing commission since they need to build strong and lasting relationships with customers. They might also need to offer regular support, advice, or consultation.

Trailer commissions are most commonly found in the investment industry, and while [they can be controversial], they're a sensible framework for SaaS businesses looking to secure multi-year deals or contract renewals.

Importantly, you should [say whether trailer commissions apply] whether you include them in your plan or not. You need to make it clear what happens if, for example, a rep does all the hard work to close a sale but resigns before the customer pays. Rather than having the courts decide, save the headache by dealing with it upfront in the plan.

These commission structures will provide you with a framework to begin testing. Choose the one that best fits your business and see what happens. Don't be afraid to customize. Decide the outcomes most valuable to you – revenue, sales, profitability, customer feedback, renewals – and then incentivize the behaviors that achieve them.

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