Sales compensation, Profit Margin and Multi-rep Splits

What options are available?

The #1 IT Reseller Profit Management Software

Overview

When more than one employee is involved in purchasing product and product sales. Questions are raised on several important issues:

1. How should each employee be compensated on the transaction?
2. What was each employee's contribution to creating the gross profit on the transaction?
3. What method should the company use to eliminate disputes leading to unhappy and lower performing salespeople?

Our focus on IT resellers and their operations has lead to discovering sales compensation issues and devising functionality that solves these critical issues facing IT resellers. We have seen many methods of handling compensation, profit margin commissions and splits between reps.

Compensation based on Gross Sales volume

Salesperson compensation based on sales volume alone does not guarantee profitable sales for the company. Even a sale that appears profitable might not be.
For example an Ebay sale at 10% margin paid for with a Credit Card can be a breakeven or losing event based on the size of the transaction. See the table below showing the Ebay fee structure. Add to that a sales commission of 1,2,3 or 4% of gross sales and you have a negative profit on a 10% margin sale.

Ebay Final Value Fees

Closing Price	Final Value Fee
Item not sold	**No Fee**
US$0.01 - US$25.00	**10.00%** of the closing price
US$25.01 - US$100.00	**10.00%** of the initial US$25.00 (US$2.50), **plus 7.00%** of the remaining closing value balance
US$100.01 - US$1,000.00	**10.00%** of the initial US$25.00 (US$2.50), **plus 7.00%** of the initial US$25.01 – US$100.00 (US$5.25), **plus 5.00%** of the remaining closing value balance US$100.01 – US$1,000.00
Over US$1,000.01	**10.00%** of the initial US$25.00 (US$2.50), **plus 7.00%** of the initial US$25.01 – US$100.00 (US$5.25), **plus 5.00%** of the initial US$100.01 – US$1,000.00 (US$45.00), **plus 3.00%** of the remaining closing value balance (US$1,000.01-closing value)

Other Options for Compensation

Unfortunately, only costly high end business software systems have had the ability to generate a sales rep profit margin report. Many of them do not have the ability to attach the wide range of expenses that could be incurred in a transaction. And none of them can trigger the tracking of the Net Profit Margin reporting based on paid collected AR. Many firms have resorted to laborious manual tracking on spreadsheets that increase the chance of multiple errors in addition to the sizable human effort involved.

Sales compensation, Profit Margin and Multi-rep Splits

What options are available?

IQ reseller allows IT resellers to compensate sales and purchasing employees in a variety of ways, offering a great deal of flexibility as your business changes, but more importantly ensuring you remain profitable. Available methods are:

1. Gross sales
2. Gross Profit on Sales
3. Net Profit after expenses of the sale, including but not limited to:
   - Cost of goods sold
   - Technical fees
   - Freight
   - Installation
   - Credit Card processing fees
   - Ebay fees
   - Bank wire transfer fees
4. Salary, plus percentage of any of the above.

Some of the unique features of IQ reseller developed as a result of industry input are:

I. Designated purchasing employee commission: An *optional* overall system wide function allows a percentage of profit margin split to be applied automatically whenever a product is allocated or shipped on a sale transaction. With this function a dedicated purchasing rep receives a default percentage of profit margin from 0 – 100 percent on every transaction. This default of course may be overridden on any single line item or transaction. *This function requires no additional processing for the company.*

II. Splits based on "Market value" and each employee's "Value added" to the transaction: In the "Secondary" equipment market, pricing is not fixed as it is in the "Primary" Channel. Product may be purchased in a variety of ways:

a. Original equipment manufacturer (OEM), overstock.
b. End of lease returns from financing organizations.
c. From corporate and consumer end users of the product.
d. Insurance claim adjusted product.
e. Liquidations from various sources.
f. Other resellers, dealing with one of the above sources.

In each of the above sources, the acquisition cost is not "fixed" by any manufacturer but is negotiated on an individual basis between the involved parties. This creates situations where any part or product could be purchased at any price. A part worth $1000 could arrive in at zero. A system worth $40,000 could be brought into stock at $20,000. Slower moving items can be brought in at lower percentages of value. Fast moving "liquid" items may be brought in at higher percentages to market value ratios due to the ease of reselling items actively sought after by end user customers. Experienced brokers, dealers, purchasing and salespeople know that profit margin is created by a variety of ways:

a. Purchasing below market value.
b. Selling above market value.
c. Adding services to the sale i.e. configuration, integration, testing, installation, refurbishing, expedited services.
d. Intangible factors:
   i. Relationship of buyer and seller.
   ii. Product knowledge of buyer and seller.
   iii. Market knowledge of buyer and seller.
   iv. Substitute product knowledge of buyer and seller

In every secondary market transaction there are a variety of factors each party influences in a transaction. There are relationships, favors to be called in. Time constraints, stock constraints, skill levels etc. all determine the profit on any transaction.

How do resellers split the profit margin or commission on any transaction between a two people? What are other resellers doing? What can IQ reseller do to simplify and equate value added by each person without creating extra work?

Negotiated "Market Value" based splits

IQ reseller customers have the ability to easily split margins on any transaction or line item either by percentage or selected dollar amount. Some resellers use the concept of "Market Value" to determine the value of each side of the transaction. Market value for purposes of this discussion is defined as the average price that the item by its *condition code* can be purchased from three dealers who regularly stock and resell the items needed. The term stocking dealer is used because dealers who do not "make a market" in an item by continuously stocking and selling the item will often sell the product at a lower price. The lower price is offset by no guarantee of consistency in the product supplied in that it may not have been tested properly or identified properly due to the fact that the dealer is not technically proficient in the item.

A WS-C2950 New Open Box (NOB), Cisco product can be bought from three stocking dealers.

a. AAA Computer Parts $1000
b. Bogus Technology $900
c. Computer Universe $1050

The average price is $2950/3= $983 Market Value

Example: ACME Computer employs Martin Smith, an end user sales rep that develops strong relationships for repetitive business in corporate end users. He has one customer in particular who only obtains one other price before Sue the buyer issues a purchase order. Martin consistently sells to this customer for prices much higher than typical broker-to-broker or dealer-to-dealer pricing.

This model will work with whoever adds value, wholesale broker, or end user rep. A couple examples show how the split could work.

Sales compensation, Profit Margin and Multi-rep Splits

What options are available?

The #1 IT Reseller Profit Management Software

A. Item in stock
ACME has a "product specialist", Jerry, buys and sells Cisco equipment for the company. He has a (NOB) WS-C2950 in stock at $600. Martin sells the product for $1200. Market value is $983 *ACME has a policy that states equipment should trade between reps close to "market value.* Jerry sells it for about 95% of market value or $925. The benefit for Martin is that Jerry knows the Cisco market and helps him with pricing to make sure Jerry's pricing to his customers is within a reasonable range that the customer feels confidence in the reps offering. If the customer receives a cold call with an eager salesperson willing to quote a low price to open an account perhaps she will give Martin the "last look" if his price was moderately competitive. Martin does not have to waste time learning market price or even calling a previous good source known to have good pricing. Martin still receives product at a price at or below what he could source on his own without any time wasted. This allows him to quote and win additional deals with other customers. The benefit for Jerry is that the "in house" salesperson, Martin, will use the product at a fair price and not hassle with other brokers. When the split screen comes up in Tracker it is easy for the user to type in a split of the margin $325 for Jerry, $275 for Martin, or enter a percentage split.

B. Item not in stock
Jerry needs to purchase product for Martin. As "product specialist" he is the expert on the market. He gave Martin a "fixed price" if Martin closed the order within 7 days of the price quote. The fixed price was $975. Since Martin closed the deal at $1200, his fixed margin is $225. Jerry is the "product specialist". He makes his margin if he meets Martin's delivery time at a price less than $975-his guarantee to co-worker Martin. If Jerry is wrong he must take the loss if his cost is more than $975.

Fixed Percentage Splits
Another method that can be used is to agree on a percentage split for all transactions which involve a product specialist. A few examples can show how this works in real life on products with greatly varying amounts of margin to work out equitably. 25% to 30% seems to work out very equitably over time versus the 95% of market value example above. It also is very simple to implement and uses the least overall time by all employees since there is no negotiation involved, nothing to dispute or bring up at a meeting or a lunch break. Each person has an incentive to maximize the company profit, and subsequently their commission, by doing their part to buy at the lowest price and sell at the highest price. IQ reseller tracks all splits automatically by line item and transaction through the GL and into each reps Profit Margin report.

Split 30% to "product specialist"(buyer), 70% Seller					**Versus 95% of market rule #2 above**			
Inventory cost	Selling Price	Total Margin	Sellers Margin (70%)	Buyers Margin (30%)	Market Value	95% of market value	Sellers Margin	Buyers Margin
$800 med	$1200	$400	$250	$150	$1000	$950	$250	$150
$300 low	$1200	$900	$630	$300	$1000	$950	$250	$650
$900	$1200	$300	$210	$90	$1000	$950	$250	$50
$1100 hi	$1200	$100	$70	$30	$1000	$950	$250	$-150
$800 med	$1400	$600	$420	$180	$1000	$950	$450	$150
$300 low	$1400	$1100	$770	$330	$1000	$950	$250	$850
$900	$1400	$500	$350	$150	$1000	$950	$250	$250
$1100 hi	$1400	$300	$210	$90	$1000	$950	$250	$50
Totals								
$6200	**$10400**	**$4200**	**$2940**	**$1260**			**$2800**	**$1400**

Sales compensation, Profit Margin and Multi-rep Splits

What options are available?

The #1 IT Reseller Profit Management Software

Sales supplied by product new from distribution
In the Primary channel the manufacturer sets the List price and discount level to distribution. Distribution sets the discount level to the resellers based on sales volume, services and other variables required by each reseller. Each reseller's price is relatively constant over time. So although the "secondary market forces described above do not exist there still exists a need to split margin between purchasing and sales employees fairly or between members of sales teams. IQ reseller does so very simply and elegantly.

Multi-rep margin splits between more than two people
Larger IT resellers may have sales teams that work together on an account. In a purchase of equipment the "end user" rep might bring to the Cisco market maker a "package" of equipment for resale. The big question is how do you compensate the rep fairly for their work in finding the package and bringing it in? Or in a sales team situation how do you compensate multiple contributors to a sale. IQ reseller gives you a couple easy options:

1. <u>GL Entry Method</u>
   An amount can be agreed upon between the two and you may execute a GL entry in each reps profit margin account moving the monies where they should go.
2. <u>Multi-Rep Inventory Method</u>
   Any items purchased or traded in can be easily flagged for Multi-rep splits at any percentage desired. So than profit is not distributed to any rep until the product is sold. For example Cisco items can be sorted and flagged on a purchase to have the profit split between the buyer and the end user rep whenever they are sold. Also, a team of 2 or more reps could share the margin on a sale in varying percentages for each. The cold caller could get 10% the State rep 40% and the Cisco specialist 50%.