

Compensation Cost Guidelines

Sales teams or salespeople are classed as being high, normal, or low maintenance depending upon their cost to the organization. Like any expense, the lower the cost the better.

These are guidelines only and the actual percentages can (and do) vary between industries and markets.

A *high maintenance* salesperson (or sales team) is one where the salesperson's direct and indirect costs exceed 40% of the profits generated by the salesperson.

A *normal maintenance* salesperson (or sales team) is one where the salesperson's direct and indirect costs range from 30% to 40% of the profits generated by the salesperson.

A *low maintenance* salesperson (or sales team) is one where the salesperson's direct and indirect costs are less than 30% of the profits generated by the salesperson.

Compensation as a percentage of the *gross profit*.

Direct costs only:	<10%	= Low maintenance
	>10<20%	= Normal maintenance
	>20<30%	= High maintenance
	>30%	= Danger point
Indirect + direct costs	<30%	= Low maintenance
	>30<40%	= Normal maintenance
	>40%	= High maintenance
	>50%	= Danger point

Direct costs: salaries, commissions, & expenses.

Indirect costs: benefits, support staff, supervision.

Commission Conversion Formulas

Converting %GP to %GS

To convert commissions as a percent gross profit (GP) to percent gross sales (GS), multiply the commission rate by the %GP. I.e. if the commission rate is 10% and the gross profit is 25%, then 10% of 25% = 2.5% of Gross Sales.

Converting %GS to %GP

To convert commissions as a percent of gross sales (GS) to percent gross profit (GP), divide the commission rate by the percent GS and multiply by 100. I.e. if the commission rate is 2.5% and the gross profit is 25%, then 2.5% divided by 25% times 100 = 10% of Gross Profit.