Compensation Plan Checklist

Avoiding Lawsuits
A lot of post-employment aggravation, where either a salesperson leaves you or you leave the salesperson, can be avoided if the compensation plan covers off the items in the checklist below.

Some of this grief is the result of simple misunderstandings and are worked out after tense discussions where both tempers and maturity are tested. Some end up in the courts where a judge will decide what was and wasn't intended by what was written in or left out of your compensation plan.

No checklist can ever cover every eventuality, but if you can address some of the major causes of potential grief you may well avoid lawyer's fees and court costs.

As you go through this checklist, avoid the tendency to pooh-pooh what appears to be obvious. For example:

What is a sale? Is a lease a sale? Is a purchase order that has yet to be accepted by the credit department a sale? Is it only considered a sale after it has been invoiced? This a critical point because you pay for sales.

What is the value of a multi-year sale with annual call-offs? Does the salesperson get credited with the full value of the contract or just the annual call-offs?

What happens if the product or service gets delivered after the salesperson has left the company? Is the salesperson still entitled to remuneration and if so, for how long?

Get the idea? Be clear with your intentions.

Compensation Checklist
Here are some of the key issues that need to be addressed in the compensation plan documentation. The list is by no means complete but it's a great starting point.

- What constitutes a "sale"?
- How are low-margin sales handled? What is the value of a sale for commission purposes or credit towards quota?
- When is the salesperson credited with a sale? Some options are:
    - upon receipt of the purchase order or contract
    - upon delivery
    - upon invoicing
    - upon payment

- When are commissions due (or owed)? Some options are:
    - when credited with the sale
    - upon delivery
    - upon invoicing
    - upon payment
- When are commissions paid: weekly, monthly, quarterly, or annually?

Note: These last three points are particularly important if a salesperson leaves or is terminated.

- Do you provide a draw against commission?
    - If so, how much and under what conditions and terms?
    - What type of draw: recoverable or non-recoverable.

Note: Draws can be a financial minefield.

- Is there a bonus plan in place? If so, under what terms will a bonus be paid and how much will the bonus be?
- What happens if a salesperson doesn't make his or her monthly/quarterly minimum sales targets?
- Are or should monthly/quarterly minimum sales targets be seasonally adjusted?
- How are bad debts, refunds, or returns handled?
- What happens in the event of a cancelled project, sale, or contract?
- Are assigned territories and/or accounts properly defined?
- Are there any house accounts? What happens on a sale to a house account?
- What happens when a salesperson leaves the company? When do commissions stop being owed?
- What happens when you fire a salesperson?
- Is there a need for split commissions? If so, how will they be split?
- In the case where an account is turned over to a new salesperson, how is the former salesperson compensated for residual business that might occur, and for how long.
- What dispute resolution solutions are available to each party?

Additional Issues

Here are some additional questions and concerns that need to be addressed when developing a compensation plan.

- Is the plan to be tied to gross sales or gross margin?
- What is the desired annual income for a typical salesperson and what sales volume is required to make that income?
- What is the preferred type of remuneration plan?
    - Straight salary
    - Straight commission
    - Salary and commission
    - One of the above plus a bonus
- How does your compensation plan compare with your competition or similar organizations?