Recoverable Draws

Commission salespeople are among the highest paid people in North America. It's a high stress, high anxiety position that pays well when the individual performs. Commission sales also means that you don't get paid unless you *do* perform.

Sometimes there are conditions beyond our direct control that means commissions will be delayed and in order to assist good performers cover these temporary financial shortfalls, most companies provide a draw against commissions.

A recoverable draw is basically a loan to the salesperson from the company. It's somewhat like a bank's overdraft protection that allows you to write a cheque even though you don't have enough money in your account to cover the withdrawal.

Like overdraft protection, a recoverable draw is intended to tide you over in times of temporary financial need and should be considered a loan that must be paid back.

If a person is in a continual overdraft position at the bank they will 'call the loan' and insist that it be paid in full before extending any further credit. The same applies to a recoverable draw. The salesperson has a "commission deficit" when the draw paid exceeds the commissions owed.

Once a salesperson's draw (commission) deficit exceeds two months of credit, the loan should be called. In other words, if a person has a draw of $2500 a month and they have a commission deficit of $5000, the draw ceases until the deficit is brought to $0.

I recommend that you don't let the commission deficit exceed two months, or whatever amount you are prepared to write off if the salesperson leaves. For example, in the above example, should this salesperson have a commission deficit of $4000, at the next pay period, they would only receive a draw of $1000 to bring their total deficit to $5000, and the draw would cease until the deficit was paid back.

Make sure the salesperson understands that they will lose their draw if they fall too far behind. It should not come as a surprise to the salesperson.

Every business has dry spells, which is why the draw exists in the first place. Most companies make every attempt to ensure that their salespeople have a continuing opportunity to make income. On the other hand, the salespeople make every attempt to capitalize on the good times so that they don't have to go too far into a deficit position during temporary business droughts.

If a person is in a continual deficit position, either their draw is too high, or their performance is too low. The draw should be lowered or the performance increased to achieve financial equilibrium.

Caution. Never let a salesperson's deficit exceed what you are prepared to lose or write-off. Trying to collect a recoverable draw after a person has left your company, even though you're entitled to it, is a nightmare you don't need, and leave a bad taste in everyone's mouth.

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