SALES COMPENSATION PLANS & BENCHMARKS
2016 EDITION

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INTRODUCTION

This report is based on a three-year project that involved compiling, evaluating, and comparing various sales compensation plans from some of our most successful NSCA members.

The idea behind this study was to determine whether there is a direct correlation between an integration company's overall success and the individual sales compensation plan(s) it uses. While not conclusive, the study shows very interesting approaches to sales compensation.

Through the study, we quickly determined that very few of our members pay a commission that is based upon a percentage of gross sales. Because the study was originally conducted to see whether paying on gross sales vs. project profitability has a bottom-line impact, and very few companies were found to still pay on gross, we modified the study to serve as a benchmark report of how profitable companies compensate sales staff.

REPORTING COMPANIES

The NSCA members – systems integrators – featured here have revenues ranging from $5 million to $55 million. Each company had pre-tax net earnings of greater than 5% from 2012 to 2015. The business locations were in cities with populations ranging from 250,000 to 5 million.

To date, 27 companies have participated in the development of this report. Twenty-six (26) companies are located in the United States; one company is located in Canada. Companies that had net earnings of below 5% EBITDA (earnings before interest, taxes, depreciation, and amortization) were excluded from this study. The 27 companies were evaluated, and their compensation plans were placed into one of six categories (Companies A-F). The Company A category utilizes by far the most common approach (11 integrators fell into this category); the Company B category was the least common (two integrators fell into this category).

This report will help you compare a variety of sales compensation plans used to determine overall sales staff income, and see how the plans correlate to company profitability. In other words: Does the right sales compensation plan offer a direct and vital connection to company profits?

Here's what we discovered …

Key Assumption

Standard measures were developed to create a benchmark. The basis of this comparison uses the same annual sales example of $1.2 million sold at a 35% gross profit. Gross profit calculated from the standardized NSCA chart of accounts and income statement models was used. Based on this information, we are able to illustrate the different annual earnings generated from the same sales target.

Company A:

Companies in the Company A category use a very typical compensation plan (and the one most commonly used by NSCA members): the "Simple NSCA Member Sales Compensation Plan." Variations of this plan are estimated to be used in more than 50% of NSCA member companies.

Average base salary:
$50,000 (range was $39,000 to $61,000)

Commission:
Paid based on gross profit
10% of gross (sales of $1.2 million with a 35% gross profit - 35% of $1.2 million = $420,000 x 10% = $42,000)

Benefits and expenses:
vehicle, phone, vacation, insurance, etc.

Total compensation:
$50,000 + $42,000 = $92,000 plus benefits
(assuming sales of $1.2 million at 35% gross profit)

Company B:

Companies in the Company B category use a very complex “shared incentive” compensation plan. This plan is used to incentivize all key team members in a shared-success format. These companies believe that other staff members and departments are necessary in order for a salesperson to achieve success, so they compensate those employees for their efforts in making the sales team successful.

This category pays $60,000 per million of top-line sales at 30% gross profit. It pays a total compensation payout of $60,000 per million in sales. When additional compensation is to be paid out, it distributes each added compensation dollar as follows:

- Salesperson: 57.5%
- Training team: 12%
- Estimating team: 10%
- IT team: 7.5%
- Drafting team: 7.5%
- Chief engineer/support services team: 5.5%

Base salary:
Varying numbers for each salesperson; salary divided by 0.06 to create breakeven point
(example: $60,000/0.06 = $1 million breakeven point)

Commission:
6% of top-line sales on every dollar above breakeven, distributed as outlined above

Over-goal compensation:
8% of top-line sales for deals closed prior to Dec. 31

Total compensation:
see below

The breakeven point established indicates when the salesperson has sold enough work to cover his or her costs. The salesperson cannot earn another dime until he or she attains $1 million in gross sales at 30% gross profit to pay for him or herself. No other staff member or department will earn another dime of additional compensation, either, until the salesperson hits the breakeven point.

Once the salesperson hits $1 million in sales, he or she creates additional compensation of 6% of top-line sales on every dollar above the breakeven from that point on. That 6% is distributed as outlined above.

Each salesperson also has an annual sales goal that starts on Jan. 1 and ends on Dec. 31. The goal is reviewed and resets every Jan. 1. Once a salesperson achieves his or her sales goal in a sales goal year, he or she can earn “over-goal” additional compensation of 8% of top-line sales as long as deals are closed prior to Dec. 31. This offers an incentive to earn 20% more to get lingering or sandbagging deals closed and into the backlog.

Company B companies do not allow sales below 30% gross profit without approval. No compensation is paid on sales below 25% gross profit.

Company B, continued:

Illustration

A salesperson has:

- Base salary of $50,000
- Breakeven sales point of $833,333 at 30% gross profit
- Sales goal of $3 million

This salesperson is paid at the rate of $50,000 per year until he or she has sold $833,333 at 30% gross profit. As soon as he or she has sold $833,333, the ability to earn additional compensation kicks in. Each dollar sold over the breakeven point ($833,333) now creates additional compensation as outlined previously.

Examples

$0 – $833,333 in sales

Salesperson is paid $50,000 annual compensation; no additional compensation earned by anyone

$1 million in sales
($166,667 additional sales = $10,000 additional compensation)

Salesperson earns $5,750 - $50,000 + $5,750 = $55,750

Remaining teams split $4,250
Note: Based on the model ($1.2 million in sales), the sales rep with a base salary of $50,000 would make roughly $60,000 in total compensation.

$3 million in sales
($2,166,667 additional sales = $170,000 additional compensation)

Salesperson earns $97,750 - $50,000 + $97,750 = $147,750

Remaining teams split $72,250

$3.5 million in sales
($500,000 over goal = additional compensation of $40,000)

Salesperson earns $120,750 - $50,000 + $120,750 = $170,750

Remaining teams split $89,250

At no time does the company outlay exceed $60,000 per million until a salesperson goes over goal. These calculations are entered into an electronic operating management software application that runs when sales are entered. These calculations are revisited every year to ensure that they stay in line with operating costs and necessary margin requirements.

Company C:

Companies in the Company C category focus on total project value. They pay a sliding percentage scale based on gross profit starting at 25% (0.5%) and ending at 66% (5%). It also pays a quota bonus of 1% for attaining the quota.

Base salary:
$55,000 (average)

Commission:
2.5% of total job
($1.2 million at 35% gross margin = $1.2 million x 2.5% or $30,000 — the range was close at 2% to 3%)

Total compensation:
$85,000

In the example above, if this person's quota were $1.2 million, he or she would also receive a $12,000 bonus when that quota was attained. (The company doesn't have a salesperson with a quota of less than $1.5 million.)

Company D:

Companies in the Company D category offer a low base salary with a draw.

Base salary:
Varying amounts based on quotas; model is base ($32,000) plus non-recoverable draw ($26,400) = $58,400 plus over goal bonuses (averaged 18% of base plus draw)
In this example, the total comp would be around $70,000.

Benefits and expenses:
$400 to $500 monthly car allowance depending on territory, company laptop, $90 monthly cell phone allowance (salesperson must carry data plan), health and life insurance, paid time off, etc.

One company used an estimated gross profit (EGP) quota of $275,000, which is commensurate with base + draw. It pays 22% of EGP for new customer sales and 12% EGP for existing customer sales.

Half of the commission (50%) is paid into the bank after order entry; the other 50% of commission is paid into the bank based on project completion/acceptance. All commission is settled at year-end regardless of project status. Salary and draw are subtracted from the bank. Any monies over salary and draw are paid into the bank.

Company E:

Companies in this category use a lower base salary plus higher commissions on gross profit model. This plan encourages profit margin over top-line revenue: working smarter, not harder.

Base salary:
$32,000 (average, regardless of what you sell or how long you've been with the company)

Commission:
based on gross profit when the job is sold; multiply gross profit by 0.4 (the factor)
(example: GP of 35% x .4 = 14), then multiply the gross profit $ x 14%

Benefits and expenses:
$600 monthly vehicle reimbursement, company phone, company laptop or iPad

Total compensation:
see below

For the first 12 months of employment, the company offers another $32,000 as a non-recoverable draw.

Examples

A $100,000 job sold at 35% gross profit pays 14% on the gross profit of $35,000, or a commission of $4,900. The same $100,000 job sold at 45% gross profit pays 18% on $45,000, or a commission of $8,100.

In this example ($1.2 million in sales at 35% gross profit), the salesperson would make 14% of $420,000, or $58,000 commission plus $32,000 base = $90,000 a year.

In this example, the same salesperson selling $3 million at 35% gross profit will make $147,000 in commission plus $32,000 base = $179,000.

If the salesperson sells the same $3 million at 40% gross profit, he or she will make 16% on $1.2 million gross profit, or $192,000 plus $32,000 base = $224,000 per year.

Note: Two of these companies in this category didn't pay commission on jobs under 28% gross profit. The most a salesperson can make is 18% on the gross profit (companies cap gross profit at 50%).

Company F

Company F companies use a variable commission scheme based on gross margin. One company tries to keep the cost of its sales managers, estimators, account managers, and sales staff at or below 10% gross for total sales.

Base salary:
Starting compensation package range: $58,400 to $60,000 (less than two years of experience)

Experienced compensation package range: $70,000 to $92,000 (2+ years of experience)

Commission:
6.4% of gross profit of a 39.4% margin job; 1% for sales below 36% margin

Total compensation: see below

Note: Benefits and expenses are in addition to the earnings shown below.

A salesperson would earn $78,800 in the example of selling $1.2 million at that margin.
All sales below 35% are paid differently.

In total company sales, $15 million would generally result in $1.5 million in sales compensation, including sales costs, commissions, base, expenses, and so forth. This does not include marketing, demos, or giveaways.

Comparing the Six Categories

The total compensation range using the same sales numbers and formula (low to high).

Note: Benefits and expenses are in addition to the earnings shown. This illustration is based on an experienced sales representative's (more than two years) compensation package. A significant variance was the competitive wage situation and cost-of-living factors in small mid-large markets.

Range of base salary plus commissions:

- $60,000
- $70,000
- $78.800
- $85,000
- $90,000
- $92,000

Average is $79,000 plus expenses and benefits

The average total earnings on $1.2 million in sales at 35% GP would be $79,000 plus expenses and benefits. *(Note: The variance was consistent with cost of living indices per city/region.)*

Other Findings of Interest

Starting sales representative compensation package range:

- $58,400 (less than two years of experience)
- $60,000 (less than two years of experience)

SUMMARY Commission plans vary greatly; there is no perfect sales incentive program. The goal is to find the plan that best aligns the success of the individual with that of the company. There is also a great deal of variation based on location and cost-of-living adjustments. Without exception, the lower overall income compensations plans were located in Midwestern cities; the higher compensation plans were on the East and West Coast and in larger metro areas.

CONCLUSION The vast majority of NSCA members have transitioned away from paying commissions on gross sales with no tie to profitability. With today's modern job-costing tools, we are able to capture the gross profit and contribution of each project, making it relatively easy to pay commissions based on performance or profitability.

It is still a concern and an issue of fairness when paying commissions based upon labor calculations (estimated hours vs. actual hours). On one hand, it is a big component of profitability. On the other hand, it's not in the salesperson's control as to how the installation team performs. Each company must evaluate this issue prior to determining the best plan.

NEW! Managed Services Sales Compensation Plans

The Company A-F category plans will not work for a managed services salesperson.

It may, however, work well to have one of the six plans in place for the direct project sales team and use the managed services plan for aftermarket salespeople. That hybrid approach is being implemented by many successful firms. Below is an example of a managed services sales compensation plan constructed by NSCA.

For a services-only salesperson, he or she generally earns a little more on salary ($40,000 to $60,000), and a little less on incentive or commission. Informal surveys suggest that NSCA members charge around 0.5% per month (approximately 6% annual based on total installation contract value) for the service contract.

The services salesperson who sells the deal typically earns one or two months of that amount – or, in many cases, 10% of the annual service contract value. It is typically paid out at the front end (upon closing).

Example: A $100,000 system goes in and the service contact (after the warranty expires) is sold for +/- 6%, or $6,000.

The salesperson earns his or her base (typically $40,000 to $60,000) plus 10% of that $6,000 ($600). Some take the $6,000 sale and pay 1/12 or 1/6 of that (one or two months). That equates to around $500 to $1,000 in incentives for closing that deal.

Many pay more if the salesperson closes a multi-year deal, but be mindful of how it's paid out in case the deal is cancelled part-way through without penalty.

A big challenge is determining how to pay based upon profitability of individual contracts. Some members desire a split commission plan (some paid upfront, some paid at the end) with the profits earned from that account/contract over a period of time. We caution you to be mindful of doing that only in a way that doesn't lead to poor service. Most likely, it would require thinking about customer satisfaction scores.

Variables include:

- Length of contract
- Profitability of contract
- Resigning profitable contracts
- When commissions are paid
- Who prices contracts
- Keeping sales costs in check
- Good-better-best service plans

IN CLOSING Some compensation plans are far more complex than others. More complex plans require better, more expensive software and payroll management systems. They also take additional time to administer. The benefit to a complex plan, however, is the tailoring that incentivizes more salespeople and is more driven toward common company goals.

A simple compensation plan is easier to administer, but often incentivizes just the salesperson. When using these plans, NSCA recommends that other incentives be put in place for employees who deliver the projects on time and on budget.

During the study, it became apparent that the sales team adhering to the minimum margins or markups is equally as important as having the right sales compensation plan. With the tools we have today, it's relatively easy to establish a margin requirement (project contribution) and only pay commissions once that mark is achieved.

CONTRIBUTORS We want to thank the members that contributed to this report.
Due to confidentiality provisions, NSCA will not disclose the contributors.

The following charts are based on data featured in the 2015 Compensation & Benefits Report, published by NSCA.

SALES FORCE COMPENSATION

	Total Company Responses	Total Number of FT Individuals in This Position	Annual Compensation (percentiles) 10th	25th	50th	75th	90th
Entry-Level Salesperson	26	59	$38,182	$48,059	$55,112	$62,750	$83,740
Experienced Salesperson	56	308	$51,700	$65,500	$80,458	$109,750	$132,754
Sales Manager	25	40	$57,222	$80,000	$115,000	$143,943	$180,600
VP of Sales	24	24	$78,500	$125,250	$143,057	$188,666	$266,000

NOTE: Data are for full-time employees. Annual compensation is defined as all income, including bonus and commission monies.

ANCILLARY COMPENSATION, SALES FORCE

				Average Percentage of Compensation From Commission			Average Percentage of Compensation From Bonus	
	Year	Sample Size	Percentage Receiving Compensation From Commission	All Respondents	Only Those Who Receive a Commission	Percentage Receiving Compensation From Bonus	All Respondents	Only Those Who Receive a Bonus
Entry-Level Salesperson	2014	26	76.9%	17.4%	22.6%	11.5%	1.6%	14.1%
	2010	39	84.6%	35.3%	41.7%	20.5%	2.4%	11.9%
Experienced Salesperson	2014	56	89.3%	42.7%	47.9%	25%	1.9%	7.4%
	2010	67	86.6%	44.9%	51.9%	28.4%	3.4%	11.8%
Sales Manager *	2014	25	48%	22.4%	46.6%	4%	7.5%	18.7%
	2010	33	71.7%	31%	42.6%	39.4%	6.3%	15.9%
VP of Sales	2014	24	29.2%	11.8%	40.3%	41.7%	6.5%	15.5%
	2010	Position not tracked in 2010						

* Position tracked as “Experienced Sales Manager” in the 2010 survey.

COMMISSION STRUCTURE, SALES FORCE

How commission is typically determined

	Salespeople	Sales Managers/ VP of Sales
Gross Sales Price	20%	23.1%
Total Project Revenue	3.6%	0%
Actual Gross Margin	49.1%	38.5%
Estimated Gross Margin	23.6%	15.4%
Other	9.1%	30.8%
Sample Size	55	26

The “other” responses consist of both project-based and companywide metrics, including gross profit of sale, actual net of company, gross margin excluding margin on wages, actual profit, division sales, team sales goal, and company profit. Data may not sum to 100% since more than one option could be specified.

BENEFITS AND BUSINESS TRAVEL, SALES FORCE

		Salespeople	Sales Managers
Benefits Offered	Use of a Company Vehicle	23%	30.8%
	Mileage Reimbursement for Personal Vehicle	78.7%	71.8%
	Expense Account	70.5%	66.7%
	Cell Phone Paid by Company	90.2%	87.2%
	Sample Size	61	39
Per Diem Rate for Overnight Business Travel*	Actual Expenses, No Cap	62.3%	71.8%
	Actual Expenses with a Daily Cap	13.1%	5.1%
	Daily Cap	*Min = $35 Max = $253 Median = $45*	
	Flat Per Diem	14.8%	5.1%
	Per Diem Amount	*Min = $35 Max = $120 Median = $45*	
	Other	4.9%	5.1%
	Not Applicable/Not Offered	8.2%	15.4%
	Sample Size	61	39

* Data may not sum to 100% since more than one option could be specified.

BENEFITS AND BUSINESS TRAVEL, SALES FORCE

		Overall	Up to $3 Million	$3.1 to $10 million	$10+ Million	2010
Benefits Offered	Use of a Company Vehicle	23%	38.5%	23.8%	14.8%	21.3%
	Mileage Reimbursement for Personal Vehicle	78.7%	69.2%	71.4%	88.9%	72%
	Expense Account	70.5%	53.8%	95.2%	59.3%	64%
	Cell Phone Paid by Company	90.2%	92.3%	95.2%	85.2%	85.3%
	Sample Size	61	13	21	27	75
Per Diem Rate for Overnight Business Travel*	Actual Expenses, No Cap	62.3%	61.5%	71.4%	55.6%	53.3%
	Actual Expenses with a Daily Cap	13.1%	0%	14.3%	18.5%	14.7%
	Flat Per Diem	14.8%	30.8%	9.5%	11.1%	17.3%
	Other	4.9%	0%	0%	11.1%	6.7%
	Sample Size	61	13	21	27	75

* Data may not sum to 100% since more than one option could be specified.

Salesperson — responsible for equipment and labor sales to customer. Also responsible for developing new client base and maintaining existing client base. “Entry-level” individuals are individuals with less than three years of experience; “experienced” individuals are individuals with more than three years of experience.

SALESPERSON (ENTRY-LEVEL)

		Total Resp.	Total FT in This Position	Annual Compensation 25th	50th (median)	75th	Mean % From Commission	Mean % From Bonus	Median Salary 2010	Median Salary 2007
	Overall	26	59	$48,059	$55,112	$62,750	17.4%	1.6%	$50,000	$41,685
Company Size	Up to $3M	2	4	**	**	**	**	**	$39,000	$32,500
	$3.1-$10M	8	12	$46,806	$50,000	$60,000	12.5%	0%	$47,500	$40,685
	$10+M	16	43	$48,379	$57,612	$70,250	18.2%	2.6%	$50,000	$53,000
Total Full-Time Employees	1-15	1	1	**	**	**	**	**	$35,000	$33,000
	16-30	8	11	$41,625	$47,279	$50,000	18.1%	2.5%	$37,500	$40,685
	30+	17	47	$49,383	$60,000	$68,500	17.2%	1.3%	$60,000	$50,000
Region	Northeast	2	4	**	**	**	**	**	$48,500	$34,500
	South Atlantic	3	5	**	$50,000	**	23.5%	0%	$60,000	$51,000
	South Central	2	3	**	**	**	**	**	$34,000	$37,500
	North Central	10	23	$42,925	$49,150	$56,418	20.6%	0%	$47,500	$40,000
	Mt./Pacific	7	10	$50,000	$60,000	$65,000	9%	5.2%	$41,000	$60,000
	Canada	2	14	**	**	**	**	**	**	**
Population Size	Under 100k	6	9	$47,765	$61,000	$84,400	17%	0%	$44,500	$31,000
	100k-499k	5	11	**	$55,224	**	20.3%	3.9%	$46,000	$38,000
	500k-2M	5	18	**	$50,000	**	16.1%	1.2%	$52,500	$40,000
	2+M	10	21	$48,446	$60,000	$62,750	16.8%	1.7%	$47,500	$55,500

SALESPERSON (EXPERIENCED)

		Total Resp.	Total FT in This Position	Annual Compensation 25th	50th (median)	75th	Mean % From Commission	Mean % From Bonus	Median Salary 2010	Median Salary 2007
	Overall	56	308	$65,500	$80,458	$109,750	42.7%	1.9%	$85,000	$80,000
Company Size	Up to $3M	11	17	$30,145	$53,000	$72,000	31.9%	0.9%	$51,180	$65,000
	$3.1-$10M	21	54	$66,000	$80,089	$104,694	36.2%	3.1%	$85,000	$80,000
	$10+M	24	237	$75,750	$100,000	$120,000	53.5%	1.2%	$100,000	$107,835
Total Full-Time Employees	1-15	17	28	$46,000	$60,000	$77,500	32.9%	1.5%	$50,000	$65,000
	16-30	10	26	$65,250	$80,045	$109,466	41.1%	3.1%	$82,500	$80,789
	30+	29	254	$76,500	$100,000	$118,976	49%	1.7%	$100,000	$94,687
Region	Northeast	6	31	$90,000	$98,451	$113,245	48.1%	1%	$87,750	$90,000
	South Atlantic	9	93	$58,000	$75,000	$124,330	38.5%	1.4%	$88,150	$90,000
	South Central	6	29	$61,354	$94,500	$122,950	42.6%	0.3%	$90,000	$65,000
	North Central	18	71	$53,900	$68,500	$92,477	38.8%	2.3%	$75,000	$65,000
	Mt./Pacific	14	69	$74,250	$95,000	$113,563	47.3%	2.2%	$84,568	$85,000
	Canada	3	15	**	$68,000	**	47.1%	3.4%	**	**
Population Size	Under 100k	12	49	$61,750	$80,045	$99,177	42%	0.5%	$68,219	$65,000
	100k-499k	16	91	$52,250	$68,157	$97,500	34.7%	2.2%	$72,500	$60,000
	500k-2M	13	61	$72,500	$90,000	$122,922	47.4%	1.5%	$87,750	$80,000
	2+M	15	107	$72,000	$100,000	$118,250	47.9%	2.9%	$99,384	$81,578

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