



Distributors ICM Incentive Compensation Management Buyers Guide

How to use this Ebook

Distributors and wholesalers rely on their sales team to solve challenges for their customers and drive business growth. Building incentive compensation plans to fairly reward these teams can be challenging. At Performio, we've implemented hundreds of incentive comp plans for distributors and wholesalers that serve a broad range of industries. While every business is different, we've identified common measures and components to construct example plans for each major revenue-facing role. In the pages that follow, you'll find an overview on incentive comp at distributors and wholesalers as well as some example plans for the most common roles. Naturally, you'll want to modify these sample plans to work with your unique business objectives, but they provide a good starting point by showing you clear examples with popular and proven compensation metrics.

Selling Roles & Pay Mix

Distributors & wholesalers employ a variety of salespeople depending on their scale, business model, and geographic reach. Some of the most common are below along with the typical pay mix (base / variable) for each:

Role	Description	Typical Pay Mix (% base / % variable)
Sales Rep (also called Field Account Rep, Outside Sales Rep, Account Manager, Territory Rep, Account Rep, Territory Sales Manager)	Sells products to accounts, commonly serve a geographic territory, can be inside reps (sell over the phone) or outside reps (sell in person)	60% / 40%
Regional Sales Rep (Also called Regional Account Rep)	Serve accounts that cover multiple territories but that are not national	65% / 35%
National Account Manager	Responsible for named large national accounts	65% / 35%
Product Specialist	Supports sales reps with product knowledge	70% / 30%
Sales Manager (also called Manager, District Manager, Regional Manager)	Manages the above roles, typically does not sell	70% / 30%
VP Sales (also called Head of Sales, Sales Director, Chief Sales Officer)	Manages managers, or in smaller organizations may directly manage the sales team	75% / 25%
Retail Sales Rep	Some distributors sell in-store, so there can be retail reps as well serving walk-in customers	75% / 25%



Common Performance Measures

Distributors and wholesalers pay on a variety of measures, but the most common are the following:

Gross Margin (GM) amount

- Also called Gross Profit (GP)
- By far the most common measure
- $\text{Gross Margin} = \text{Price} - \text{Cost of Goods}$ and is communicated as a value (not a percent)
- Can be actual GM or GM growth for more mature territories
- Example: If a territory generated \$1.2mm in GM last year and the actual GM this year is \$1.4mm, a GM growth commission would be paid on the incremental \$200,000

Unit Volume/Revenue

- Less common than GM
- May be used when the company does not want their sales reps to see unit costs
- Requires good pricing discipline and management of discounting via sales and company leadership and/or pricing policies

Gross Margin % (GM%)

- Similar to GM amount, but expressed as a percentage
- $\text{GM \%} = (\text{Price} - \text{Cost of Goods}) / \text{Price}$
- Since GM% does not capture volume, only the profitability of what is sold, this measure must be used together with a volume measure (revenue or units), possibly in a matrix linking the two to a commission rate (the higher the GM% the higher the commission rate paid on volume)

Services Revenue

- Many large distributors have services arms (e.g. installers)
- These distributors may pay a portion of variable comp for services, but this will be a secondary measure with lower weight than the primary measure

Typical Commission Plan Details

Below are some common terms and structures found in distributor & wholesaler incentive comp plans:

Plan Components: the unique combination of performance measure that makes up an incentive comp plan



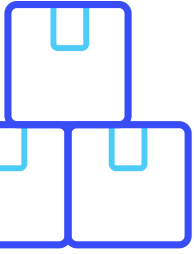
- Smaller distributors pay a defined commission per sale, possibly without reference to a stated sales goal
 - Rates may increase based on sales volume tiers (accelerating commission), or may be one single value regardless of volume sold (straight commission)
 - Larger distributors have goal-based plans. Payout rates are derived from the target incentive divided by the goal
- This structure helps with uneven territories

Territories: the buyer population for which the sales rep receives sales credit and compensation

May be based on:

- Geography
 - Named accounts
 - Geography x Industry or Size
- E.g. All hospitals in Iowa or all companies in Texas with over 300 employees

Crediting: who gets paid incentive compensation on a given transaction



- Rollups for managers, VPs, etc. based on sales credited to those below them in the organizational hierarchy are common
- Overlays in which product specialists are credited for all sales of their assigned product category (e.g. subject-matter experts needed for more technical sales)
- Double-crediting: Account Rep and National Account Rep may get paid on accounts that have a national presence
- Services people can receive credit if they support a sale

Payment frequency: how often incentive compensation is paid out

- Monthly is most common
- Quarterly is next most common

Thresholds: the attainment % or the total margin value below which no variable pay is earned

- These are common in established businesses where most territories have a strong run-rate business and the goal is to incentivize reps to grow the business and exceed that run-rate
- E.g. no incentive compensation is paid out until a rep achieves 70% of their gross margin goal

Crediting date: the date on which a transaction is credited to a rep

- Incentive compensation in Distribution is typically triggered based on ship date, not bookings date

Sample Plans

Below are some example incentive plans that we have seen used by distributors. Each plan includes guidance about what role or situation would be most appropriate for that plan.

Gross margin at the transaction level

Role(s):

Sales reps

Best for:

Even territories or earlier stage companies where goal setting is difficult

Things to consider:

This type of plan may reduce the ability to optimize territory assignments for growth since reassigning accounts reduces sales opportunity and compensation for reps.

Actual Gross Margin %	Commission Rate on Gross Margin \$
1%	1%
2%	2%
3%	3%
4%	4%
5%	5%
6%	6%
7%	7%
8%	8%
9%	9%
10%+	10%

Goal-based commission plan with tiered rates

Role(s):

Sales reps, Sales Managers

Best for:

Emphasis on goal attainment via tiered rates

Things to consider:

Sales leadership would likely need to each have their own rate table derived from the quota and their target variable compensation.

Gross Margin Quota	\$2,000,000
Target Total Cash Comp	\$150,000
Pay mix (base / variable)	60% / 40%
Target Variable Comp	\$60,000
Base Commission Rate (BCR)	3%

Gross Margin Quota Attainment		Commission Rate in range
From	To	
0%	50%	2.4%
50%	100%	3.6%
100%	150%	6%
150%	uncapped	4%

Bonus type plan on Gross Margin \$ with a threshold

Role(s):

Account Executive, Sales Managers, VP Sales

Best for:

Roles with a significant run rate business, transactional selling

Things to consider:

Plan is paid as a percent of base salary per percentage point of goal attained allowing management to rearrange territories as needed and preserve total compensation.

Gross Margin Quota	\$4,000,000
Target Total Cash Comp	\$150,000
Pay mix (base / variable)	67% / 33%
Target Variable Comp	50% of base salary (\$50,000)

Gross Margin Quota Attainment		Payout Rate in range
From	To	
0%	90%	0%
90%	100%	5% of base salary for each 1% attainment
100%	110%	10% of base salary for each 1% attainment
110%	uncapped	8% of base salary for each 1% attainment



Two component mixed plan with mixed bonus & commission

Role(s):

Account Executive, Sales Managers, VP Sales

Best for:

Companies with both a standard and strategic product portfolio

Things to consider:

Plan illustrates a method for emphasizing a strategically important product category by assigning a weight that is greater than that product's share of the quota. This plan is also a powerful tool for leaders to monitor and incentivize selling across an entire product portfolio.

Gross Margin Quota	\$3,000,000 total
Target Total Cash Comp	\$150,000
Paymix (base / variable)	67% /33%
Target Variable Comp	\$50,000 (50% of base salary)

	Standard Products (80% weight)	Strategic Products (20% weight)
Gross Margin Quota	\$2,800,000	\$200,000
Target Variable Comp	\$40,000 40% of base salary	\$10,000 (10% of base salary)

Gross Margin Quota Attainment		Standard Products (80% weight)	Strategic Products (20% weight)
From	To	Rate	Rate
0%	90%	0%	5% of Gross Margin from 0% to 100%
90%	100%	4% of base salary for each 1% attainment	
100%	110%	18% of Gross Margin above quota	10% of Gross Margin over 100%
110%	uncapped	9% of Gross Margin above 110%	



Benefits of an Incentive Compensation Management system for Distributors

Incentive compensation management (ICM) software allows organizations to automate their sales commission process. Some of the benefits of an ICM for distributors include:

- ✔ Free up your people by **automating** the labor-intensive sales comp process

- ✔ Create **incentive plans** that match your sales strategies

- ✔ Save money by **eliminating overpayments**

- ✔ Get data-driven insights around incentive plan **effectiveness** and sales team **performance**

- ✔ Increase your sales team's **engagement** and **motivation** through better transparency into their commissions



About Donya Rose of The Cygnal Group

Donya Rose, CSCP, is Managing Principal of The Cygnal Group. She is a recognized expert in sales compensation plan design, regularly speaking at conferences and writing published articles. She serves clients from F500 to growth-stage businesses, and advises WorldatWork on sales compensation hot topics and best practices.

About Performio

Performio is the only Incentive Compensation Management provider that drives business performance with a product built to handle complexity, a team of dedicated experts, and a proven track record of long-term global success. Performio is a modern, enterprise-grade software and mobile app used to manage and automate incentive compensation. We address complexity through our unique no-code architecture, native data transformation capabilities, purpose-built plan components, and automated workflows. But because software alone will not drive business performance, we do incentive comp right, with experts who will guide you as you adapt your incentive compensation program as your business changes. You can count on Performio as a reliable, focused, and safe partner who has delivered customer success for over 15 years.

Ready to see what Performio can do for your organization?

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