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# Splitting Commissions Across Multiple Territories

by GLEN BALZER



Throughout history, a manufacturer was a self-contained entity. A company would design, develop, manufacture and market a product in a single facility. That company would design a product in one corner of the facility, develop the product close by, place orders for materials in another corner, and manufacture finished products in the rear of the same facility. A salesman calling on the company would interface with everyone in the customer's facility under a single roof.

With the advent of contract equipment manufacturers, international trade agreements and globalization, the various points of contact have been scattered to remote locations. Those remote sites might be in different cities, states or countries. In most cases, an individual salesperson or manufacturers' representative cannot be expected to service all remote sites involved with a sale.

There might be three or more manufacturers' representatives involved. In order to align all of the disparate reps toward the common goal of closing sales for a single supplier at a single customer, a commission program must be organized that motivates all reps simultaneously. Split commissions are the technique that accomplishes that objective.

There may be up to three sites involved in the sale of components from a supplier to a customer.

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## Point-of-Design

A sale begins with the design of a supplier's component into a customer's final product. The point-of-design is the location where a rep works with a customer's design team to choose a supplier's component. The customer creates a product specification for the supplier's component. The rep's task at

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the point-of-design is to convince the supplier that the component selected will perform as required. An energetic rep will encourage the customer to take advantage of proprietary features of the supplier's component that the competition cannot provide, creating a defensible design win. Simultaneously, the rep works hard to disallow competing suppliers' products from being included on the product specification.

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### **Point-of-Purchase**

The customer's procurement office might be at a remote site. The procurement office might provide purchasing services for a network of customer design sites. The point-of-purchase is the location where the manufacturers' representative provides support to the buyer, where purchase orders are written and where purchase contracts are negotiated.

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### **Point-of-Manufacture**

In today's world of globalization, manufacturing is likely to be in yet another remote site; likely in another country. This site might be the manufacturing division of the customer or, as is increasingly likely, a contract equipment manufacturer. It is at this location, the point-of-manufacture, where the suppliers' components are received and those components are integrated into the customer's manufactured product. A manufacturers' representative at this location is needed to resolve issues generally associated with on-time delivery, product count and quality.

In order for a customer to be satisfied with the components from a supplier, that customer must be satisfied with the activities at the point-of-design, at

***In order for a customer to be satisfied with the components from a supplier, that customer must be satisfied with the activities at the point-of-design, at the point-of-purchase and at the point-of-manufacture.***

the point-of-purchase and at the point-of-manufacture. Dissatisfaction at any single site translates to dissatisfaction with the supplier, clearly something to be avoided. In order to achieve customer satisfaction, the disparate manufacturers' representatives must work as an integrated team in concert with the supplier.

Not all customer sites provide feedback to the supplier with equal ease. Quite often, a problem at one site is communicated to the rep at another site.

Manufacturers' representatives must frequently communicate among themselves in order to resolve supplier issues with the customer. A well-managed split commission program acts as a lubricant in those communications. If the program does not work smoothly, information exchange between the reps ceases and customer dissatisfaction rises.

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### **Commission Tracking**

How does a supplier ensure customer satisfaction at all three sites? All three manufacturers' representatives must be encouraged to work together. A smoothly functioning split commission program is the tool that brings about cooperation between those three manufacturers' representatives. The total commissions may be split one-third for point-of-design; one-third for point-of-purchase; and one-third for point-of-manufacture. Depending upon the amount of work performed at each site, the split could be adjusted in order to favor the site where the heavy-lifting occurs. Design sites are frequently afforded half or more of the total commissions paid.

Commission splitting programs are not free. In order to implement them, two functions must be in place:

- First, sales management must have the authority to determine which customers will be involved with commission splits. Minor customers may legitimately be excluded from a split commission program because the cost of implementation exceeds its cost. Sales management must determine the ratio of the split

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# Dealing With Split Commissions

The subject of split commissions is hardly foreign to the pages of *Agency Sales* magazine.

Any thoughts that split commissions are not important to reps in certain industries can be put to rest based on recent conversation with reps:

- “I’ve got 77 key engineering firms that I work with,” explains one rep that serves the construction industry. “I rarely see the spec credit given. It’s a wonder I stay involved. The fact is, I have great rapport with the engineers I call on and my efforts generally result in orders that I do receive credit for. But it remains a frustration that so many times I’ve done so much work on an order and no credit comes my way.”

- Another rep who works with OEMs says, “Whether a split commission program is a problem or not, depends to a large extent upon the principal. If the arrangement is well-defined and communicated, then I won’t lose sleep over it. But then there are others. One principal that comes to mind doesn’t make me very happy. He has a requirement that we have to file an extensive engineering report to be considered for our share of the commission. We had a recent experience with this same principal involving work we did for an airport. We spent time chasing orders all over the place, from Minnesota to North Carolina. We were supposed to get some sort of destination commission but never got anything out of it. The major effect an experience such as this has is that next time, we’re not going to expend as much effort on that principal’s behalf as we did this time.”

He adds that some other companies have “defined split commission programs that are clearly spelled out. There are two- and three-way splits, and it’s so understandable you really don’t even have to think about it. You know that you’re going to be treated fairly. In the absence of such well-crafted programs, however, it’s difficult to pay commissions equitably for the rep and the principal who want to be responsible.”

In past issues of *Agency Sales*, independent manufacturers’ representatives have been urged to consider the following:

- **Written agreement** — Get as much in writing as possible beforehand. Even if the subject is only touched upon during a conversation with a principal, it would be wise to follow up — in writing — confirming the details of that conversation. In addition, having a written provision included in the contract would go a long way toward addressing the concern.

- **Negotiation** — Negotiate prior to the order. It’s after the fact that things get much more difficult.

According to Gerry Newman, Schoenberg, Fisher, Newman & Rosenberg, Ltd., an attorney familiar with rep law, “Before signing it’s always wise to run your agreement with your principal by your attorney. And if split commissions are expected, it’s best to have them negotiated prior to agreeing to take on the line.”

- **Communication** — If you know beforehand that an order is coming down that may call for split commissions, it’s imperative to communicate with the principal as soon as possible. Inform him of the extent of the work you’ve done, even though the order is formally being placed from another location. If you wait, you may find that you wind up with a smaller part of the commission — or nothing at all.

- **Reaction** — Remember that your principal isn’t going to change everything just for you. As a result, it’s important to react in a professional manner; let him know all the details of a given situation and urge him to work with you on it. □

*Editor’s Note: We’d love to hear feedback from reps and from manufacturers who have to deal with the problem of split commissions. Let us know what works and what doesn’t, what’s fair and what isn’t. E-mail to: [jfoster@MANAonline.org](mailto:jfoster@MANAonline.org).*

among the three manufacturers' representatives and have the clout to implement the ratios with the reps.

- Second, the sales organization and the finance or accounting department must track all of the sales to customers involved with commission splits, provide sales data to all applicable reps, and pay the reps accordingly.

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### Preparing for the Inevitable: Commission Disputes

The best-written and best-implemented split commission program will ultimately become the target of a dispute. One or more of the manufacturers' representatives involved ultimately feels as though it is not being fairly compensated. When a dispute arises, it is imperative to have a dispute resolution procedure in place. Such a procedure can be either a documented policy that is already in place, published and understood by all reps, or an ad hoc decision made by a designated sales executive, or a combination of the two. A written policy is preferred since it helps to minimize conflict. It is critically important to stand by commission-split decisions once made. Otherwise, enterprising reps will discover inconsistency and begin challenging all split rates.

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### The Absolute Rule

Whenever multiple manufacturers' representatives are competing for a slice of the commission pie, there will be a struggle for each rep to maximize its slice. The absolute rule to remember when splitting commissions is that the sum of commissions paid to all reps involved in a sale will total no more than 100% of the normal commission that would be paid on a single location sale.

**Editor's Note:** *It should be noted that while the author of this article maintains that "the sum of commissions paid to all reps involved in a sale will total no more than 100% of the normal commission that would be paid on a single location sale," a different view of the matter was offered in the September 2005 issue of Agency Sales magazine. In his editorial (p. 4), MANA President/CEO Joe Miller asked why reps working together in three terri-*

*ories would be willing to agree to "a one-third split of the industry's standard rate of commission." Indeed, he continued, "Maybe it will be necessary to increase the rate of commission in all split credit situations in order to insure an adequate response."*

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### Conclusion

In today's era of globalization, most all customers have spheres of influence in multiple geographies. All manufacturers' representatives are very familiar with commission splitting algorithms. It is imperative for all suppliers to have a split commission policy in place and well-documented. The policy must be administered by people who thoroughly understand it and who implement it impartially. The people responsible for implementation cannot waver once decisions are made. □

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### ABOUT THE AUTHOR:

*Glen Balzer is a consultant and expert witness involved with domestic and international marketing and sales. He advises parties involved with contracts between suppliers, manufacturers' representatives, global customers and industrial distributors. He promotes conflict resolution between parties involved in representative and distribution agreements. He has significant experience with integration and rationalization of merged and acquired companies. During the past 28 years, he has been involved in all aspects of establishing and managing marketing and sales organizations throughout North America, Europe and Asia.*

