
Coming To Agreement On Split Commissions

“Tinkers to Evers to Chance” were the words Chicago Cubs fans once chanted to dig their team out of a hole in a baseball game. When it comes to manufacturers’ representatives facing the specter of dealing with split commissions, perhaps a similar chant might be “Vigilance, due diligence and a good contract.” At least that’s what two reps who regularly deal with split commissions recommend.

As most reps know, here’s how the typical split commission scenario develops:

- The front-end work on an order is completed in Location A.
- A purchase order is cut in Location B.
- Final destination for the order is Location C.

Since each of the locations is in a different territory and might require the work of a rep in that territory, the commission ultimately is split among the participating reps.

Consider for a moment this hardly unusual scenario and how it might impact you today. In the past, the rep who got the order was usually the one who got the commission. That’s not always the case today. How about projects involving reps where the specifier and consulting engineers aren’t located where the product is going to be consumed? The specifying is completed at the designing location. Distribution negotiation and/or servicing of customers who are installing the product are in another location.

Before reps and their principals can even begin to sort out who gets paid for providing various products/services, it has to be determined:

- Who specified it?
- Where was the purchase order cut?
- Who services the account at the end-user level?

- Is there after-sale service, including training?
- Who handles replacement parts?
Then there are the considerations of:
- What is it that the manufacturer is paying the rep to do — get the order? Achieve gross margin? Service the account?
- Does the rep know what’s expected of him?
- Are the right people being paid to do the right things?
- And finally, is the rep being properly motivated and compensated to do the job?

Reps Share Thoughts

We can’t guarantee that we’ve got the answers to those questions and considerations, but two reps did step forward to provide their perspectives on the subject.

Chris Ramsey, Castel Assocs., Inc., Victor, New York, maintains that split commissions are a matter of concern for reps and “more times than not they can be a source of frustration — if not downright hostility.”

By way of example he cites his own real-world experience. “My partner and I had been servicing a company for more than 15 years. About five years ago, this company became a part of a larger corporation headquartered in the Midwest. From that point on,

purchase orders originated from there. So while we continued to do our job of working to sell the product in our territory, since the order would originate elsewhere, all we were doing was waving goodbye to 10–20 percent of the available commission.”

He continues that often the decision as to whether there will be a commission split is dependent upon the principal involved. “With one principal you might realize 100 percent of the commission in a similar scenario because the principal asks ‘Why should I wake up the rep on the other side? He hasn’t done any work on this order at all.’ On the other hand, you might have another principal who maintains the rep on the other side did a great job when it came to cementing the relationship with the customer. As a result, he deserves a percentage of the commission.”

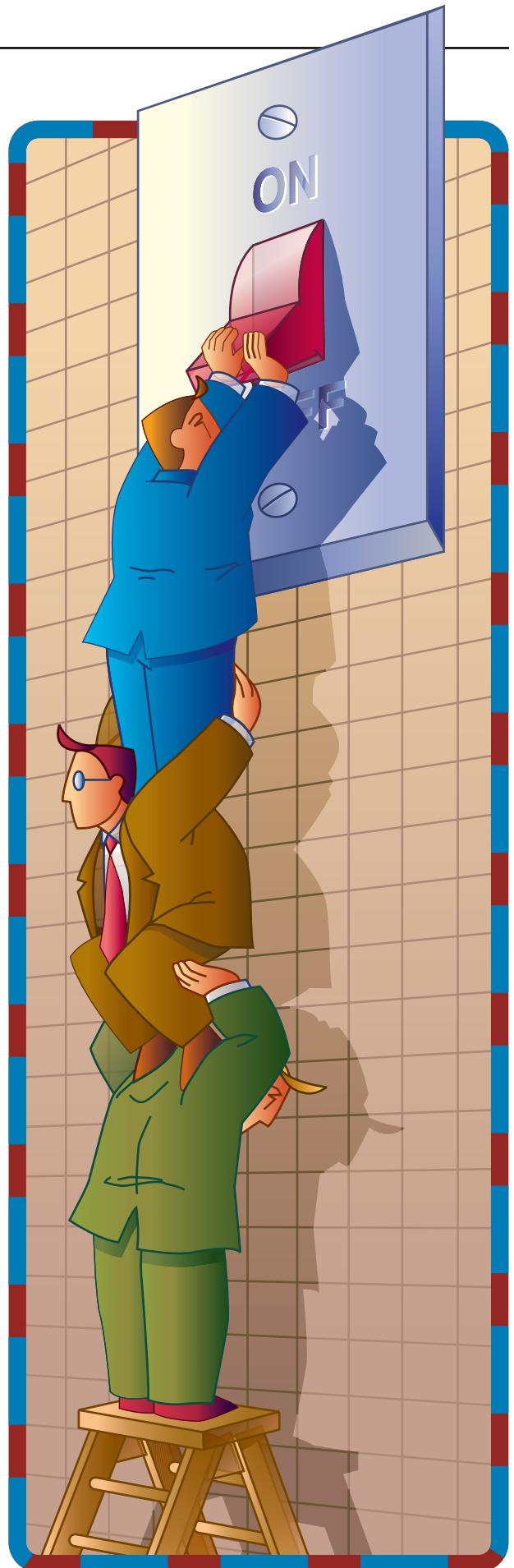
Ramsey maintains that the process of resolving any disputes regarding split commissions always works best when there is trust and openness between the rep and the principal. “For instance, we’ve had the situation where we learned we were working on a project where split commissions could result. In my opinion, the correct way to handle such a situation is to go to the principal and let him know the purchase order will be coming out of our territory. But in the interests of locking down the order, ahead of time we want to notify the rep located where the order will be shipped. Let’s notify him early so he can get involved from the outset and actually earn his destination commission.”

How Commissions Are Split

In general terms, Ramsey says the normal types of commission splits he’s encountered have been:

- Purchase order origination.

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- Engineering.
- Sales influence.
- Destination.

“If a rep can demonstrate that he’s been a major influence in one of more of these areas, then he’s entitled to his share of the commission split.”

Ultimately, Ramsey continues, when questions arise concerning splits, “I think the single person responsible for resolving it is probably the principal. Some principals are really actively engaged with their reps and their end users and they know that with some projects you’re working on that splits are going to develop. There are some, however, that won’t necessarily know unless I tell them.”

Due diligence comes into the conversation when Ramsey notes, “The smart rep is one who plans ahead and sees to it that the possibility of splits is covered in his agreements with his principals. In the absence of having it written into the contract, be sure that there’s some policy that you know the principal will be referring to when the occasion arises.”

Finally he notes, “Reps are paranoid animals. Having said this, I think the best approach when it comes to splits is this: If you as the rep find that the order

you’ve been working on is going to be ultimately delivered to another destination, circle the wagons and get everyone involved sorting out how best to win the order. While it’s probably fair to call this an ethical approach, it also is fair and makes sense. Sure, you’re looking out for your own best interests, but you’re also looking out for everyone involved. Look at it this way — you have no traction in the territory the order is destined for. Why not involve the rep who has that traction and who can readily develop the needed relationships?”

Commissions Over Several Territories

Offering his perspective on the subject of commis-

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sion splits, MANA member Phil Zaks, Par Associates, Inc., Doylestown, Pennsylvania, says, “We’re used to it. It happens all the time on a couple of levels. First, for instance, are the situations where the purchasing has been completed on Long Island and then the order is shipped to Maryland. When that happens, it’s a simple matter of just splitting it between our salespeople.”

Things get a little complicated, however, when the order moves away from the East Coast. “Let’s say the purchasing is here and the shipment is sent to California. Obviously, I’m not going to be covering any territory or business on the West Coast. Over the years I’ve had plenty of experience when some of my larger accounts ended up buying plants in other locations in the country. As a result, I’d have to fly from Philadelphia to Kansas City to someplace in South Carolina to cover the account because of my full involvement. But, consider the case of us selling short-run stamping that amounts to a \$5,000 order. The order may be placed here and then shipped to Georgia. There’s no way I’m going south to cover it. Let the rep there take care of it. That’s when the split with another agency is called for.”

Aside from the basic geographical concerns, Zaks adds, “When an awful lot of engineering work is called for in one location vs. another, then the split is going to be heavier with the up-front work vs. the ship-to location. But, basically we’re talking about case-by-case considerations here.”

When asked what he might advise other reps to do when split-commission situations develop, Zaks maintains, “The best thing I could tell anyone is to try and make sure ahead of time that splits are cov-

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ered in contracts with your principals. That's especially important with principals that you've been conducting business with for a long time. Go back and look at your contract and read what was stipulated. That's where the vigilance comes in. Be vigilant especially in cases where you're involved in a lot of engineering. Make sure if it's a line where you do a lot of work with a design firm that the split is more heavily weighted in your favor."

He adds that in his experience, "If you're involved enough in the relationship with both principal and customer and complications crop up, you can generally work things out verbally. But if you're dealing

with a company that's especially detail-oriented, you'd better make sure it's covered in the contract."

Perhaps an important underlying point connected to this study of split commissions is the fact that ultimately the manufacturer has the responsibility to compensate his reps for the work they've done on an order. And, referring back to the subject of rep and principal communicating and trusting each other, it's only when the manufacturer and the rep discuss and agree upon mutually accepted levels of compensation that the rep will be properly motivated to provide the level of representation that the manufacturer needs and expects in the marketplace. □

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