Ive always been fascinated by the power of sales and how it can make or break a business. When managing content for a leading sales training company, I used the opportunity to learn everything I could about the sales world. I spoke to leaders and reps firsthand, enquiring about their vision, challenges, struggles, compensation, sales commissions, and more. Regarding sales commissions, I clearly remember what Jassi Singh, head of sales training at TALSMART, casually said in our first few conversations: A well-structured commission plan is a bridge between ambition and achievement." He implied sales commissions were not just about rewarding results but also powerful tools to align motivation, drive performance, and foster a culture of growth within the sales team.This inspiration has stayed with me, and since then, Ive kept going deeper into what goes into crafting sales commissions. In this blog, Ive compiled everything Ive learned about determining the best sales commission structure for your sales team or yourself.Table of Contents The easiest way I understand sales commissions is theyre like a carrot at the end of the stick. Typically, commissions for sales push reps to close deals and surpass targets. The same commissions act as potent tools for leaders to inspire teams, manage performance, and drive business growth.What is the sales commission structure?A typical sales commission structure formally outlines how much an organization will pay its salespeople for each sale. Ive seen leaders put in quite some work, factoring in several aspects to plan a well-rounded sales commission structure.This includes factors like:How much of their budget they can allocate for sales commission.How much theyll pay for different levels of sales output.Employees base salaries.Any potential bonuses or incentives theyre willing to include.When I was discussing sales commission structures with Sim Aulakh, founder of EstablishCred, he shared his mantra: "The best commission structures align individual goals with company success.For context, Aulakh explained they set clear KPIs for their reps, like driving guaranteed placements for new clients or nurturing long-term partnerships. This ensures they see how their efforts directly contribute to overall revenue growth. By tying commissions to measurable outcomes, such as boosting placements in top-tier outlets by 15%, they give their team the highest incentives to meet and exceed expectations.While this is Aulakhs approach, the ideal commission structure may differ depending on your companys unique needs. Do you want to learn how to create a sales commission structure that marries your company interests and individual goals? Let me walk you through a step-by-step guide that I would follow. How to Put a Sales Commission Structure in PlaceFrom what I've learned, my ideal approach to creating a well-rounded sales commission structure would involve the right mix of research, combining what Ive found and communicating it well. Heres a step-by-step rundown.Step 1. Review annual sales goals.Id start by reviewing the big picture: the companys annual sales goals. This would clarify where the company wants to go, the revenue potential, and any gaps in the pipeline. It would also highlight areas where my team can improve. Such clarity is essential to designing the right sales commission structure.For instance, lets assume one of the company's goals is to increase the sales of a new service by 15% while retaining 30% of current customers. I would explore a combination of different commission structures for such an objective. Perhaps introduce a residual commission plan for customer retention and an absolute commission plan to encourage selling the new service. Ill be talking in detail about these later.Step 2. Evaluate each sales role for commission.Every salesperson on a team is unique, and Ive found that their roles often evolve, especially in diverse organizations with multiple products and channels. Given that, next Id look at each role closely things like how they source leads, close deals, and their overall performance feedback.While doing this, Id try to ascertain where the commission could drive the most impact and tailor the commission structure to focus more on those areas. Ive seen firsthand how much this helps ensure the sales commission plan is effective and every salesperson feels valued for their contributions.Step 3. Review budget and revenue goals.Budget constraints are always part of the equation, right? So, before making any sales commission promises, Id also dig into the sales budget numbers. Some aspects I would think about include:How much can the business realistically afford to pay in commissions?How can I use the sales commission plan to help the team drive revenue growth?My efforts would then focus on ensuring that the commission structure motivates the sales team and is simultaneously sustainable for the business.Step 4. Check KPIs for each sales position.Sales goals are another team motivator and help sales reps measure their performance. Id plug in efforts to have reps engage with these numbers regularly, not just during monthly meetings. Ive found this handy tool to simplify calculating essential KPIs like deal size, win rate, and commission rate.Id investigate these numbers for each team member and role to identify current sales performance patterns. Id also examine individual performance and overlaps in territory, schedule, product choices, etc. This insight would steer me toward a sales commission structure that effectively rewards the team for their efforts.Check out our free Sales metrics calculator.Step 5. Develop an initial commission plan.So far, Ive primarily discussed my approach to research for developing sales commission frameworks. With that in place, my next step would be putting it all together to create the first draft of the commission plan.For this, Id balance different needs, such as the sales teams expectations, the companys strategic goals, and the stakeholders input. Then, I'd choose the best-suited sales commission structure and build a flexible plan after all, sales goals are moving targets, right?Once I have a simple and easy-to-understand sales commission plan draft, Id give myself time to step back and reflect on it. In my experience, Ive rarely seen a perfect sales commission plan in the first step. Once I identify any shortcomings, I'd tweak it until it feels right.Step 6. Review the sales commission proposal with stakeholders.The next stage is introducing the new commission structure, which is a significant shift for any company, both financially and culturally. Id want full support from all key stakeholders for this, so Id plan my presentation and present it clearly, using data, visuals, and examples to explain decisions.Ive seen that the best leaders are open to feedback at this stage, even when its hard to hear. And thats because, often, these conversations lead to valuable refinements that strengthen the plan. So, Id mirror that. After all, this is all about collaboration and ensuring that everyone, from the leadership to the sales team, sees the value in the structure Im building.Step 7. Decide on timing.Timing makes or breaks a sales commission plan.I first realized this when Barry Stingmore, the head of sales at Eleven Writing, pointed out to me, An annual performance objective may be appealing for its administrative simplicity, but sales teams can quickly become demotivated if they realize three months in that theyll never hit quota.He had a fair point. I delved deeper to note that timing has two aspects:When you plan to launch.When the teams receive their paychecks.While theres no magic formula for timing, the best bet is to work with key teams to determine the best launch date whether its tied to the fiscal year or another company milestone. As for when commissions will be paid, it's best to collaborate with the finance team to set a clear and consistent schedule. This way, everyone will know what to expect.Step 8. Start offering sales commissions to your team.This is one of the most exciting and nerve-wracking steps. Ive learned that transparency is critical when sharing a commission plan. So, in the spirit of that, Id go for a structured rollout instead of one-on-one conversations to simultaneously present the plan to the entire team.While presenting, Id prepare well beforehand to answer any questions in as much detail as possible. I would do everything possible to ensure every team member understands the plan and feels confident about whats next.Now that Ive shared my ideal approach to working around a sales commission structure, let me share some sales commission pro tips Ive accumulated. Sales Commission TipsWith all my research on sales commissions, one resource that particularly stood out to me is Marc Wayshaks book The High-Velocity Sales Organization. Drawing from Wayshaks insights, my observations, and the suggestions I gathered from experts, here are some tips on creating an effective commission structure.1. Don't cap salaries.Salary caps are the highest salaries an employee can make at a company. Capping decreases the earning potential of your salespeople. Ive figured this isnt the best strategy for motivating people to do their best. The best sales management teams always support their team and want individuals to make as much as possible in return for their hard work.2. Get it right the first time.I cant emphasize this enough: Sales compensation doesnt have room for do-overs. Take my word for it each time you introduce a new compensation plan, youll move your sales teams goals and targets, diminishing your reps' morale and motivation. So, do your best and spend extra time to get it right at the onset.3. Keep it simple.Ensure the compensation and commission plan is clear. This will ensure the commission structure is easy to implement and without loopholes.Do you want to hack around this? If I were to check simplicity, Id ask myself if a salesperson could fill in these blanks quickly: If I do X, I will make $Y. If they dont get it right, its a sign to simplify things.4. Focus on the right products.Ive learned that not all products are created equal in commission-based sales. While letting reps focus on their preferred products boosts engagement, its also essential to consider the bigger picture when choosing products. After all, sales commissions also impact supply chains, profit margins, and sales turnover. So, Id suggest prioritizing products aligning with team strengths and business priorities.5. Connect commissions to business goals.Sales goals directly impact business strategy. Many people are involved in these processes, and Ive seen firsthand how this can create a situation where different teams have divergent priorities.In that vein, a super valuable approach Ive found is using financial goals as a starting point for defining the sales commission structure. This helps ensure the team focuses on the right priorities.6. Inflate targets from requirement.I owe this pro tip to Derek Jankowski, the head of sales at Arketa. He pointed out to me that quotas should be higher than the business needs your team to deliver.In his experience, sales organizations that consistently hit their business goals give their sales reps a quota of at least 20% higher than the business goal. Jankowski explained that the expanded quota allows reps wriggle room to take PTO, sick days, or just have a lousy month without risking the business.7. Keep reps in mind when adjusting quotas and territoriesSales quotas are excellent tools for letting reps know what to aim for, and territories help simplify complex markets. However, though valuable, these approaches can present unique challenges for individual reps.So, when building your commission structure, Id stress that you account for these differences. Whether its balancing workloads or recognizing distinct market dynamics, tailor quotas and territories to individual circumstances to create a fairer and more effective system.8. Use data to guide decisions.Make data your go-to resource for building and refining commission plans. Historical performance metrics can offer a solid foundation. Id swear by them to ensure the sales plan is fair and achievable.Beyond planning, I would also rely on data to track how the team responds to the commission structure over time. This will help adjust strategies, keep everyone motivated, and drive growth. So far, Ive shared my steps for creating a well-rounded sales commission structure and pro tips. When you get into the game, it also helps to have a fair knowledge of the fundamentals. Let me take you through that, in case youre unfamiliar.Sales Commission RatesSales commission rates are the percentage of profit or any other compensation sales reps get to meet goals. Goals might include making a sale, meeting a quota, or succeeding as a team.Theres no exact science to determining that figure, but referencing average commission rates for your industry is a good starting point.Lets look into these in detail:1. Base Salary Plus CommissionThe base salary plus commission plan is the most conventional commission structure. With this plan, salespeople receive a base salary plus commission. The standard salary-to-commission ratio is usually around 60:40, with 60% fixed and 40% variable.When to Use It: This structure is ideal for companies where sales rep retention is critical to the sales organizations success. The company actively invests in each reps success while encouraging their performance.Sales Commission Rates Example: Base Salary Plus CommissionWith a base salary plus a commission plan, a salesperson working for a high-end retail outlet might earn a base salary plus 5% of sales.Pro tip: This combination of security and rewards often motivates sales reps to grow.2. Straight Commission PlanWith this plan, sales reps' income comes directly from their sales no base salary.When to Use It: This structure is best suited for startups or businesses lacking reliable access to capital. In many ways, it amounts to a pay-as-you-go plan, which often suits firms that lack the resources to provide competitive base salaries.Sales Commission Rates Example: Straight CommissionWith a straight commission plan, a sales rep at a B2B SaaS startup might earn a 15% commission on every sale. For example, if they land a deal worth $10,000, they would earn $1,500 on the sale but they wouldn't receive any base compensation beyond that.Pro tip: High-performing sales reps typically thrive in environments set by this plan, but the structure doesn't lend itself to stability.3. Relative Commission PlanWith a relative commission plan, a rep's typical commission for sales is directly proportional to how much they hit a set quota. That compensation comes on top of a base salary, giving reps more safety net than a straight commission plan.When to Use It: This plan is the more secure answer to a straight commission plan. Its still directly tied to performance, but it doesnt alienate reps who might be running into trouble, leading to less turnover.Sales Commission Rates Example: Relative CommissionAs you can see in the example above, the quarterly deal quota is $120,000, and the rep meets only 75%. So, they receive the same percentage, or 75% of the quarterly commission, in addition to their base salary.Pro tip: This commission structure is great for more complex organizations. It offers an opportunity to reward every rep, even if their pipelines look wildly different. For example, Ive seen some territories pull in more sales than others. This works great for those cases. You can adjust the quota by territory and align the commission with that territory. This way, the commission structure rewards reps for putting in equal effort. This structure can also flex with changing business goals while remaining relatively stable for sales employees.4. Absolute Commission PlanAn absolute commission plan pays reps for hitting set goals and performing specific activities, like acquiring new customers. An absolute commission structure can help incentivize underperformers like the relative commission plan. That said, the emphasis is less on revenue and more on activity.When to Use It: This strategy is most often employed to help direct sales reps' focus. If a business needs to improve its numbers for a specific activity, its a good bet to use an absolute commission plan that revolves around that activity. However, Id say its a big no if your deal size is lower than the flat commission amount.Sales Commission Rates Example: Absolute CommissionA salesperson working with an absolute commission plan might receive a flat $ commission for every new customer they acquire regardless of deal size. As you can see in the example above, the rep is paid an absolute commission, irrespective of the revenue each customer generates. Since this is calculated at $500 per new customer, they get $2500 for five customers, over and above the base pay.Pro tip: This structure is easy for sales reps to understand and deliver on. The more intuitive the commission plan is, the more likely it is to motivate your team to perform.5. Straight-Line Commission PlanA straight-line commission plan rewards salespeople based on how much or little they sell. As the name implies, its rooted in a straight correlation a trend that typically holds even after reps meet their quota. Its one of the better ways for businesses to encourage underperformers to meet quota. At the same time, it doesn't slow overperformers down.When to Use It: A straight-line commission plan works best for organizations that want to incentivize reps to reach their full potential.Sales Commission Rates Example: Straight-Line Commission PlanLike a sales rep working within a relative commission plan, a salesperson working within a straight-line commission plan will receive compensation proportional to how much of their quota they hit. The difference is that commission earnings would continue after reps meet their quota.In the example above, the rep has achieved sales above the quota. So, theyre compensated proportionally for the superlative results. This includes the payment of commission to the extent theyve closed business in this case, 104% of the quota. So, theyre paid 104% of the typical commission for sales.Pro tip: To make the most of this plan, ensure your business has the resources necessary for an uncapped commission structure.6. Tiered Commission PlanA tiered structure encourages reps to put in extra effort by providing higher commissions as they hit substantial sales milestones. Reps can be paid increasing commissions as they meet their quota, exceed it, and continue to close more deals than expected.When to Use It: A tiered commission plan is ideal for organizations with salespeople who consistently reach (but dont exceed) their goals. It also offers more control over commission rates than the straight-line commission plan.Sales Commission Rates Example: Tiered CommissionAs you can see in the example, with a tiered commission plan, a rep might receive:5% commission on all sales up to $50,0007% on sales between $50,000 and $100,00010% on sales $100,000 and abovePro tip: Tiered commission structures require careful alignment between different parts of the business. For example, if a specific product or type of client brings in higher-value deals, other teams must be ready to meet potential increased demand in those areas.7. Territory Volume Commission PlanWith this commission structure, salespeople work with clients in clearly defined regions. The team operating in each specific territory gets paid on a territory-wide, team-oriented basis rather than one revolving around individual sales.When to Use It: A territory volume commission plan suits businesses with presences in multiple territories. It's also ideal for team-based organizations that want to fortify specific service areas.Sales Commission Rates Example: Territory Volume CommissionAs you can see in the example above, if a team of five generates $750,000 in sales within their territory at 10% commission, they would split the money and receive $15,000 each.Pro tip: This sales commission plan relies on teamwork and shared responsibility for relationship maintenance. This strategy could be a good fit if your team has a long purchase cycle with many touchpoints to close a transaction.8. Recoverable Draw Against Commission PlanWith a recoverable draw against a commission plan, a sales rep receives their commission in advance. It usually comes out at the beginning of a payor sales period as a predetermined lump sum. At the end of that sales period, that lump sum or draw comes from that rep's total earned commissions.When to Use It: A recoverable draw against commission plan is typically used to get reps off the ground in some capacity. It often compensates newly hired reps, ramping them up as they onboard. It could also be a good choice for a rep acclimating to a new territory.Sales Commission Rates Example: Recoverable Draw Against CommissionWith this commission plan, a sales rep might receive a $15,000 draw at the beginning of a given quarter. If they only reach 75% of their quota, they'd pay $3750 of that $15,000 back to their employer.Pro tip: This strategy guarantees some income to sales reps as they ramp up in a new territory or role. However, the recoverable aspect of this commission can be confusing.For example, some employers might want to recover this draw immediately or cap these payments. Others will wait a set period to collect. Deciding on recovery timing early on is essential to maintaining strong employee relationships.9. Non-Recoverable Draw Against Commission PlanA non-recoverable draw is essentially a fully guaranteed commission stipend. Like its recoverable counterpart, it starts with a firm giving its reps a predetermined lump sum. But with a non-recoverable plan, reps aren't expected to pay any of that money back.When to Use It: This plan isnt particularly sustainable or motivating. Its typically used as a short-term measure during company, industry, or broader economic uncertainty to ensure that sales reps have a stable source of income.Sales Commission Rates Example: Non-Recoverable Draw Against CommissionWith a non-recoverable draw against commission plan, a sales reps employer would give the rep $15,000, assuming theyll hit the quarterly quota. If they dont, the employer cant recoup that draw.Pro tip: This strategy can help a business maintain long-term beneficial employee relationships during stressful times.10. Residual CommissionA residual commission structure is based on the long-term value of individual accounts. With this structure, salespeople who close deals continue to receive commission from those accounts on an ongoing basis so long as they continue to generate revenue. This particular structure can have higher stakes than most.On one hand, salespeople can build a breadth of solid, productive income streams over time. On the other, losing an account for reasons that might have nothing to do with the salesperson who landed it can mean a sizable commission hit that might be hard to recover.When to Use It: This structure is best for businesses that build long-term client relationships, like ad agencies or consulting firms.Expert perspective: Stingmore favors this commission structure for service-based companies as it encourages the sales team to consider longevity when qualifying leads and reduces the temptation to close poor fit deals that reps know will churn in a few months.Sales Commission Rates Example: Residual CommissionA sales rep who works within a residual commission plan might bring in a large account. If that account pays a quarterly recurring payment of $250K per month, a rep making a 7% commission would earn $17500 per quarter in residuals from that client, in addition to base salary.Pro tip: This strategy is helpful for both client and employee retention. It also incentivizes consistent follow-up, upselling, and cross-selling with current customers.Take it further: Want more details on a typical sales commission structure? Check out this ultimate guide to sales compensation. It offers a more detailed view of sales commission structures and compensation plans.Now, lets look at industry averages. Average Sales Commission Rates by IndustryIve seen the best leaders track the typical commission for sales and overall compensation in their industry when working it out for their organization. This visibility and clarity on how their sales commission plan compares to the rest of their industry is super important to be fair and ensure everyone is satisfied. It also lets salespeople see how their sales compensation plan stacks up.To help you quickly review that, Ive compiled the table below on average sales commission rates by industry. It uses wage data from the BLS Occupational Employment Statistics (OES) survey and reflects the median average pay for each industry. The commission rate will depend on the company and the commission structure they choose.INDUSTRYMEDIAN PAYWholesale and Manufacturing Sales Representatives$ 99,710Insurance Sales Agents$ 59,080Advertising Sales Agents$ 61,270Real Estate Brokers and Sales Agents$ 58,680Securities, Commodities, and Financial Services Sales Agents$ 76,900Sales Representatives, Services, SAAS, Business Support, All Other$ 65,630Door-to-door sales Workers, News and Street Vendors, and Related Workers$ 34,910Retail Salespersons$ 33,680Sales and Related Workers, All Other$ 44,6101. Wholesale and Manufacturing Sales RepresentativesMedian pay: $99,710These sales representatives sell goods for wholesalers or manufacturers to businesses, government agencies, and other organizations. Their job security and livelihood are often almost entirely intertwined with the volume of merchandise they can sell, and their commission structure tends to reflect that. Ive marked that these reps are often paid with absolute or base salary plus commission plans.2. Insurance Sales AgentsMedian pay: $59,080Insurance sales agents contact potential customers to sell different kinds of insurance. Agents spend time directly interfacing with clients, completing paperwork, and preparing presentations. They also fulfill other customer-facing and administrative responsibilities.Ive seen that the commission for this brand of sales is generally paid on a base salary plus a commission. The commission percentages vary by the type of insurance agents are selling.3. Advertising Sales AgentsMedian pay: $61,270Advertising sales agents sell advertising space to businesses and individuals. They often work across various industries and media, including advertising agencies, radio, television, and Internet publishing. Ive noticed that advertising sales agents usually have strict quotas and receive a commission for meeting or exceeding them.4. Real Estate Brokers and Sales AgentsMedian pay: $58,680Real estate brokers and sales agents help clients buy, sell, and rent properties. Every state requires real estate sales professionals to be licensed, which could mean completing courses or passing a state-specific exam. Because theyre often self-employed, Ive seen many exercise the flexibility to define their commission structure.5. Securities, Commodities, and Financial Services Sales AgentsMedian pay: $76,900Securities, commodities, and financial services agents buy and sell securities or commodities in investment and trading firms. They can also provide financial services to businesses and individuals. Some advise customers about stocks, bonds, mutual funds, commodities, and market conditions. In my research, Ive noticed that most of these salespeople often charge flat-rate commissions per share or trade.6. Sales Representatives, Services, SAAS, Business Support, All OtherMedian pay: $65,630This sales category encompasses salespeople in positions and industries in various service-based businesses, including business support, technical consulting, electronics, telecommunications, computer systems and electronics, and software as a service. It excludes advertising, insurance, travel, and other categories. Given this category's wide range of industries and companies, Ive not been able to identify its most common commission structure.7. Door-to-Door Sales Workers, News and Street Vendors, and Related WorkersMedian pay: $34,910This category includes several different kinds of salespeople, including professionals in telecommunications, residential building construction, and subscription programming. Like the previous one, the wide range of industries and companies in this category makes it hard to pin down a standard commission structure.8. Retail SalespersonsMedian pay: $33,680Retail sales refers to reps who sell merchandise (such as clothing, furniture, or appliances) in a brick-and-mortar environment. These environments include general merchandise stores and dealers specializing in specific wares, such as sporting goods or musical instruments.Since success often depends on foot traffic rather than sales activity, Ive seen that retail salespersons are usually compensated by a base salary only. However, retail environments with high-ticket items frequently pay flat commission rates.9. Sales and Related Workers, All OtherMedian pay: $44,610This sales category encompasses salespeople in positions and industries that dont fall into the abovementioned industries. This can include roles at automobile dealerships, in non-depository credit intermediation, and with food and beverage retailers. The range of roles that fall into this category is broad, so the variety of the commission structures used tends to be as well.Whatever the sales commission approach, employers and reps should be crystal clear on the commission structure and compensation plan before the rep joins the job. The sales commission agreement is where to share or gather this information formally.A sales commission agreement:Outlines the commission structure.Details the nature of the employee-employer relationship.Establishes a time frame for employment.Specifies the employee's commission percentage.The idea behind it is to ensure employers have clear terms of employment to protect themselves from legal recourse if an employee has an issue with the commission structure theyre working within. At the same time, employees know exactly how theyll be compensated for their efforts. Therefore, both parties must thoroughly understand what's in it.Key Elements of a Sales Commission Agreement1. AuthorizationThis section allows the salesperson to sell products or services on behalf of their employer. The employer often limits the selling by restricting the regions or territories where the offerings are sold and prohibiting the rebranding and reselling their products.2. DocumentationThe salesperson must agree to use documentation and tools approved by the company to track their sales activities. These might include resources like CRM databases, software, or forms.3. Non-Compete ClauseA non-compete clause requires the salesperson to refrain from representing or selling on behalf of a competitor for a period of time after leaving their employer.4. Non-Disclosure ClauseThe non-disclosure clause ensures the employee agrees to refrain from sharing confidential information or intellectual property.5. Commission StructureThis is the section with details of the commission structure. After reading this section, the employee and employer have a clear understanding of:The compensation structure (such as commission, performance incentives, and bonuses).When a commission is earned.When commissions are paid.Consequences of cancellations, refunds, or default of payments from customers.6. AgreementThe salesperson and their employer agree to the details of the sales commission agreement by signing and dating the document.While these are the generic and most common elements, there can be specifics. If you want any additional recommendations and insight, consult your legal team or seek the advice of a lawyer to help you craft your sales commission agreement carefully.Want a headstart in developing a sales commission agreement or strategic business plan? Check out these templates Ive found to help you get started.Sales Commission Agreement Templates1. Sales Commission Agreement Template from PandaDocEdit and customize this sales commission agreement template to fit your needs. Your recipients can sign it, and youll be able to track the documents opens and views.2. Sales Commission Agreement Template from FormSwiftThis sales commission agreement template builder will help you outline the working relationship between employee and employer. It includes general information (like address and phone number), commission structure, documentation, and non-compete and non-disclosure clauses.3. Sales Commission Agreement Template from RocketLawyerWith this fill-in-the-blank sales commission agreement, you can quickly plug in the details for your document. It includes a progress bar to show you how much more of the agreement needs to be completed.Plan your commission structure for long-term success.My exposure to the sales world has made one thing clear: A well-designed commission structure is integral to hitting sales targets and keeping top-performing reps engaged.Ive seen the most effective sales commission plans to balance the organizations goals and the sales teams motivations, ensuring both thrive. Thats what your aim should be, too!If I were to summarize all my research on this topic, my preferred approach to crafting a solid sales commission structure would involve thorough research, clear communication, and a focus on industry benchmarks to stay competitive. Whatever plan you put together, ensure there is no ambiguity regarding earnings. Formalize it with a solid sales commission agreement to lock in clarity and trust. Have you ever promised your little brother a piece of chocolate to get him to do something for you? Well, in the world of sales, companies use something similar to incentivize their sales reps to sell more. And its called a sales commission. Sales commission is a portion of the revenue generated by the company, given to sales reps for any successful sales they make. How much this commission will be depends on the organization and its products. Now, there are various commission structures that may work better for different types of businesses. Here are 10 types to consider as well as our expert opinion on how to decide which one is the best for your business. THE PERFECT RECIPE DOWNLOAD the Sales Commission Calculator, a pre-programmed spreadsheet to calculate the total compensation amount for each type of commission structure. 1. 100% Commission In a straight commission plan, the only income sales representatives earn comes directly from their sales. The biggest positive for sales reps is that it provides the highest earning potential. Most companies dont put a commission cap on commission plans, so the skys the limit for sales reps. Since the company doesnt have to pay a base salary, they can offer a higher commission on each sale. This structure puts sales reps in total control of their income, since they can work more hours if they want to make more money. Its also a way for them to gauge how well theyre doing in the role. For companies, this structure offers the fastest route to market, which is why this option is desirable for startups. Commission-only reps are considered independent contractors, so theyre not technically in-house employees. This can save money on hiring, taxes, benefits, and other expenses since companies only pay out when the rep is bringing in revenue. RELEVANT READING Determining the best commission structure is only one piece of the puzzle Check out these tips for managing a sales team. However, greater income potential doesnt always mean better salespeople or a higher income. Sales reps assume much more risk with a commission-only structure since they dont have a base salary to fall back on, so companies that offer 100% commission may experience higher turnover and a smaller applicant pool. Many salespeople dont want the income risk and prefer to have the security of a base salary. Unless you have a solid training program that guarantees success, you may have trouble filling and maintaining sales roles. 2. Base Salary + Commission One of the most common sales commission structures is a base rate plus commission on every sale. Some companies provide an hourly rate as the base, while others stick to a straight salary. This model puts responsibility on both the company and the sales rep. The company invests in the rep with a monetary reward, regardless of their performance, in addition to compensation for whatever they sell. In exchange, the sales rep fully invests their skills and time to earn both parts of their compensation. Typically, the base salary isnt enough on its own to provide a viable income for the sales rep. Salespeople will still largely rely on their commissions, but at least have a cushion to fall back on as they ramp up production or if theres a shift in the market that could cause sales to slow down. The best sales reps are interested in companies that want to invest in their success. Companies that offer a base salary can make sales reps feel confident that theyll be successful, since companies dont want to gamble on candidates who wont be able to produce. RELEVANT READING Your team members are driven by more than money. Lets review 15 non-financial sales incentives you can use to motivate them. The model still rewards performance, and since you can control the fixed salary or number of hours the sales rep works, you can predict your expenses and know how much reps need to sell to be profitable. Ultimately, the customers benefit, too. The sales process retains its integrity since there isnt as much at stake if the sales rep doesnt close the deal. This alone removes much of the stress from the process since reps arent cutting corners or going off-book just to make a sale. 3. Tiered Commission Companies that want an easy way to motivate reps and reward top performers may prefer a tiered commission structure. After closing a certain number of deals or reaching certain revenue benchmarks, the salespersons commission rate increases. For example, sales representatives may earn a 5% commission on all sales up to $20,000 in revenue. Once they pass this mark, they will earn an 8% commission on all other sales during that same period. Heres what a tiered structure looks like in action: Download the spreadsheet with the above calculations pre-programmed. Some companies implement a similar model for underperformers that reduces their commissions if they dont hit their quota. For example, if a sales rep only met 75% of their quota, then they may only get 75% of their intended commission. The purpose is to motivate salespeople to continue closing deals, even after they reach their sales goals. It also allows them to get creative with other techniques, such as upselling or cross-selling, to increase their average ticket. 4. Revenue Commission Whether you choose a commission-only structure or a base salary plus commission, youll also need to decide how to set your commission rates. One popular model is the revenue commission model, which is popular for field sales organizations or companies that sell products with set price points. For example, if the sales rep sells a $1,000 service, they get 10% in commission. Many sales organizations use this method when they want to grow their market share or enter new territories. Theyre not as focused on profit as they are on larger business goals. Its simple to understand and execute for reps and company leaders alike, and paying reps based on the revenue they bring in ensures that top sales performers are also the highest paid. 5. Gross Margin Commission Model A slight variation on the revenue commission model is the gross margin commission, which takes into account the expenses associated with the products you sell. Rather than earn a percentage on the revenue, sales reps earn a percentage of the profit. For example, if you sell a product for $1,000 and it has $600 worth of expenses, then the reps would earn a percentage of the remaining $400. This model ensures that every sales transaction supports the companys bottom line. For starters, reps who rely on discounting to close deals have less of an incentive to do so, which prevents your profits from eroding. RELEVANT READING Discounts can help close deals, but you want to make sure you handle them correctly. Here are some critical lessons for building SaaS proposals. Their commission is linked directly to the price the customer pays, so they cant offer a discount without also reducing their own pay. It can also encourage sales reps to sell the products with the highest profit margins a win/win for the company and the rep. 6. Commission Draw The commission draw model contains elements of the commission-only and the base pay plus commission structures. Simply put, each sales rep receives some amount of guaranteed pay each month, regardless of how much they sell. If they earn less in commissions than the draw amount, theyll keep their commission in addition to the difference between the draw amount and the commission. For example, if a sales rep is eligible for a $2,000 draw and they earn $1,700 in commission, they keep the full amount of the commission plus $300 (draw amount minus commission). Most notably, these are advanced payments and must be paid back. This system is typically used for new hires who need time to ramp up production. Studies show the average sales rep takes about 9.1 months to gain full productivity, so having a draw allowance can provide some assurance during this time. On the downside, the commission draw model can be complex to execute, and its complicated for sales reps to track and predict their earnings. Worse, if they have several bad sales cycles in a row, they could end up in significant debt to the company. These can be a bit challenging to calculate, so we created a spreadsheet with the formulas pre-programmed, where you can enter your sales and commission rates and get back the compensation amount. Click here to download that. 7. Residual Commission Model Relationships with customers extend beyond the initial contract signing, and the residual commission model encourages sales reps to continue fostering positive connections into the future. Under this model, sales reps receive commission as long as the accounts they generate continue creating revenue. Whether repeat business through contract renewal or upselling new product releases, expanding customer relationships benefits both the company and the sales rep. This model is most common in agencies and consulting firms operating on high-budget, long-term accounts. 8. Territory Volume Commission Sales teams organized by region or territory can build a spirit of cooperation and teamwork by using the territory volume commission structure. Under this model, sales reps earn income based on a set rate for their assigned region. Compensation depends on sales volume and revenue across the territory. Commissions are split evenly among the reps based on total sales. On the surface, this model creates a sense of fairness and equity in commission. But, sales reps are human, and humans are emotional beings. High-performing reps can easily feel as if theyre carrying the weight of the team without full recognition. With that in mind, this model requires strong leaders who can foster a true spirit of teamwork and collaboration. After all, any team is only as strong as its weakest link, right? 9. Multiplier Commission Model The multiplier commission structure allows companies to create customized compensation plans, but the math involved makes this option difficult for both the employer and employee. Under this structure, companies start with a basic revenue commission percentage, which is then multiplied by a preset number based on the individual reps success in meeting quota. For example, imagine each rep makes a standard 5% commission. This total is then multiplied by a company-set modifier lets say, .5 for reaching 50% or less of their quota; .8 for reaching 51-75% and 1 for reaching more than 75%. A sales rep who met their full quota receives the total 5% commission. Their peer who performed at 65% quota will receive a 4% commission. And the low-performing rep who didnt reach 50% quota will only make 2.5% commission. While more complicated than many of the alternatives, this structure allows managers to include more factors than just quota, such as upsells and add-ons, in their performance evaluation. For sales reps, however, the variable nature of the commission can create uncertainty, which could negatively impact recruitment and retention efforts. 10. Base Rate Only A base rate only model isnt used very often in modern sales organizations. Rather than offer commissions on every sale, salespeople are paid a flat hourly rate or salary. Theres no incentive to sell more, so theres nothing to encourage productivity or motivate your team members unless you offer bonuses or other rewards. It also fails to allow top performers to stand out. If youre paying each salesperson the same salary, then your hardest working sales rep is making the same as your lowest performer. However, some sales organizations use this model if theyre focused solely on inbound leads rather than chasing deals. Your sales reps are spending more time consulting or supporting than selling. Their effectiveness relies on their ability to answer questions rather than overcome objections, follow up with leads, and deliver pitches. 4 Things to Consider When Choosing Your Sales Compensation Model The best sales commission plan is the one that will drive your sales team to peak performance. But this isnt a black-and-white decision, and many companies often end up with a hybrid of the commission structures discussed above. Heres how you can decide which model is ideal for your organization: 1. Consider Your Current Sales Ecosystem Start by dialing in on your sales process and current employees. How much are your top salespeople earning versus your lowest producers? If theres not much difference, you may need a better way to reward performance. Do you have a high turnover rate, or are your top performers leaving for a higher paying sales job? If so, you might not be providing enough monetary incentive (especially if youre currently using a commission-only model). Are your team members who hit their quotas as productive at the end of the month as they are at the beginning? If not, you might consider a tiered commission model that encourages ongoing sales productivity for greater reward. Plug in real numbers using each model youre considering and look at the outcome. Does the compensation seem fair? Is it easy for the sales rep to track and understand? Does the commission structure allow you to remain profitable? Will you gain a competitive advantage in your industry with your sales commission plan? Will it help you attract top sales talent? Most importantly, remember that its not just about the dollar amount you pay your employees. Sales leaders should also be able to use your commission structure to motivate their team, drive performance, and achieve your organizational goals. 1. Remember, Money Determines Behaviors One of the biggest considerations when outlining your sales commission structure is how money drives behavior. Your commission model should support company objectives so that sales reps are clear on what their priorities should be. For example, if you want your sales reps to sell more of Product A because theres more profit in it for the company, then it might make sense to pay them more for selling Product A. Build your commission plan around company goals, and design it to overcome existing and potential challenges that could prevent your sales team from achieving those goals. 3. Make Sure You Incentivize All Reps All your reps dont have the same job description. Inside reps focus on sales via phone and email, while outside reps work doing sales presentations in person. There are also those who specialize in sales enablement, helping both inside and outside reps close deals. If you incentivize only actual sales, then those who contribute to the sales process without directly closing deals may feel their hard work is unrecognized and undervalued. So to ensure all your reps are motivated to reach their targets, you want to incentivize them all. Of course, your commission structure could be different for each role to ensure fairness. 4. Size of Your Salesforce The size of your salesforce will also be a major factor in which commission model you choose. If you have just a few sales reps, for instance, you might be able to implement a commission-only plan without risking too much. However, if you have dozens of reps and operate on a high-volume sales model, then you may want to opt for a combination of salary and commission. Thats because if all your reps are on commission-only, then a sudden drop in sales can have a significant impact on their income and stability. Average Sales Commission Rates by Industry Of course, when it comes to deciding which sales commission structure will work best for you and your team, its essential to look at your industrys average sales commission rates. Shooting too low when it comes to commission is bound to discourage ambitious sales reps from working for your company. On the other hand, offering higher commission than your rivals will likely attract top talent, with43% of workerswilling to leave their companies for a 10% salary increase. Yet goingtoohigh could be a waste of money: you could get the same results for less. Seeking some benchmarking?Research from Hubspotdug up the following average commission rates by industry: Wholesale and Manufacturing Sales Representatives: $61,660 Insurance Sales Agents: $50,600 Advertising Sales Agents: $51,740 Real Estate Brokers and Sales Agents: $50,300 Securities, Commodities, and Financial Services Sales Agents: $64,120 Door-to-Door Sales Workers, News and Street Vendors, and Related Workers: $26,430 Sales and Related Workers, All Other: $33,220 So, What Is the Typical Sales Commission Percentage? If only it were so straightforward. Breaking this down as simply as possible, the average salary to commission ratio in US sales forces is 60:40. But this is without taking into account different types of sales commission structures or how rates vary by industry. In more aggressive sales sectors that use independent contractors such as insurance youremore likely to see a 100%commission pay structure, with no base salary to balance it out. Meanwhile, industries that focus more on customer education, like pharmaceuticals, tend to have a less aggressive mix, such as a 75:25 salary-commission ratio. Sales leaders also sometimes use different sales commission structures to motivate different team members in different ways. For instance, those in customer acquisition are likely to see a higher percentage of their total pay come from commission than salespeople working in account management. For customer acquisition salespeople, this approach puts the onus on hunting for new customers, while account management salespeople are rewarded for cultivating strong relationships with existing customers. Sales Commission Structure Template When youre hiring a new employee who is going to be paid whether in full or in part by commission, its vital to get your agreement in writing. You and your new employee must sign a document that details each partys rights and obligations. If you dont have a company lawyer on hand, there are a number of sales commission structure templates available online that make sure you dot the is and cross the ts. One of my favorites is thisSales Commission Agreementfrom PandaDoc. This template is perfectly customizable to meet your specific needs and can also be signed by the relevant parties. Bonus: you can also track views and opens on this template. Alternatively, this Free Commission Agreementfrom RocketLawyer automatically customizes the template to the state youre operating from. The RocketLawyer tool takes you through each step of customization. Theres also this simple yet effectiveCommission Agreementfrom SEQ LEGAL, based on three key cornerstones: The trigger event which has given rise to the payment obligation The base amount The commission Final Thoughts Outlining your commission structure is one of the most important things youll do in your sales organization. There are no single best solution for every organization, and sometimes, finding the right balance comes down to old fashioned trial-and-error. Its okay to experiment with different solutions to see what works. Your sales organization will likely experience its share of turnover, and what motivates one sales rep to perform might fail to motivate the team two years from now. The best practice is to focus on an effective sales process first. When your reps are able to sell confidently and predict and repeat their success, creating a fair sales commission structure will be much easier. Sales commission is one of the most effective tools for driving sales performance and motivating sales teams. By creating a direct link between sales achievements and financial rewards, companies can inspire their employees to exceed expectations and deliver outstanding results. In this post, well explore the concept of sales commission, dive into different commission structures, and examine real-world examples of how organizations leverage this tool to drive success At its core, sales commission is a variable component of compensation that rewards employees based on their sales performance. Unlike a fixed salary, sales commission fluctuates depending on how well an individual or team achieves their sales goals. For example, a sales rep might earn a base salary of $40,000 and a commission rate of 10% on total sales. If they sell $100,000 worth of products or services, theyll earn an additional $10,000 in commission. A formal sales commission agreement usually outlines key details such as commission rates, sales quotas, and specific performance metrics. This ensures that both employers and employees have a clear understanding of how compensation is structured. Discover Sales Leaders main concerns when defining commissions and variable remuneration.How do we ensure that the goals of sales teams align with those of the company?What tools are needed to monitor teams performanceHow can we maintain high levels of motivation? Download Report Download Report Variable compensation systems are designed to achieve several key objectives: Motivating sales teams: By directly linking rewards to results, commission plans encourage sales reps to put in maximum effort. Aligning goals: Sales commission aligns individual performance with organizational objectives, ensuring that everyone works toward the same priorities. Boosting retention: High-performing employees are more likely to stay with a company that rewards their efforts fairly and transparently. When structured effectively, sales commission can drive not only individual success but also the overall performance of a sales team. Sales commission plans come in a variety of formats, each tailored to different industries, team sizes, and business objectives. Below are the most common types of sales commission structures: This structure offers no base salary; instead, employees earn a percentage of their total sales. While this model maximizes earning potential, it also carries a higher degree of risk for employees who may face inconsistent income. A real estate agent earning a 6% commission on each property sold. If they close a $500,000 sale, theyll earn $30,000. This hybrid model provides a guaranteed income alongside performance-based earnings. Its a popular choice for companies looking to offer stability while still incentivizing results. A sales rep earns a $50,000 base salary and a 5% commission on total sales exceeding $100,000. This model incentivizes sales reps to exceed quotas by offering higher commission rates for higher sales volumes. 5% commission on sales up to $50,000.7% on sales between $50,001 and $100,000.10% on sales above $100,000. This structure rewards salespeople for generating recurring revenue streams, such as subscription services or long-term contracts. A SaaS sales rep earning 10% of a $1,000 monthly subscription for as long as the client remains active. This model ensures consistent cash flow by providing an advance (draw) against future commissions. If an employees earned commissions exceed the draw, they receive the surplus; if not, they owe the difference. A rep receives a $2,000 monthly draw. If they earn $3,000 in commissions, they take home an additional $1,000. To calculate commission, start with a clear understanding of your commission rate, total sales, and the structure of your compensation plan. Basic formula:Commission = Total sales x Commission rate A sales rep generates $50,000 in total sales with a 5% commission rate:Commission = $50,000 x 0.05 = $2,500 In a tiered structure, the calculation becomes more complex. For example: Sales up to $50,000 earn a 5% commission. Sales between $50,001 and $100,000 earn a 7% commission. If the rep achieves $75,000 in total sales: The first $50,000 earns 5%: $50,000 x 0.05 = $2,500. The next $25,000 earns 7%: $25,000 x 0.07 = $1,750. Total commission = $2,500 + $1,750 = $4,250. Variable compensation rates vary significantly depending on the industry, product type, and sales cycle. Below are some examples of typical sales commission rates by industry: Real estate: 5%-6% on the propertys sale price. SaaS: 8%-12%, often coupled with a base salary. Retail: 2%-5%, typically on individual items sold. Insurance: 7%-15% of policy premiums. These benchmarks can help businesses design competitive commission plans that attract and retain top talent. Get to know more about sales commission rates by industry here. When aligned with clear sales goals, commission plans can have a profound impact on sales performance. Heres how: Encourages accountability: With transparent commission agreements, sales teams understand exactly how their efforts translate into earnings. Focuses on high-value deals: Reps are incentivized to prioritize deals that yield the highest commissions. Improves morale: Achieving quotas and earning significant commissions boosts employee confidence and motivation. A successful Incentive pay plan is both fair and transparent. Here are the steps to create one: Set achievable sales goals: Base quotas on historical data and market conditions to ensure they are realistic yet challenging. Communicate all details: Clearly outline the commission rate, structure, and calculation methods to avoid confusion. Review and adapt regularly: Compensation plans should evolve to reflect changing business priorities and industry trends. A luxury clothing retailer offers employees a base salary of $30,000 plus a 5% commission on monthly sales exceeding $10,000. This incentivizes employees to upsell premium items. A software sales rep earns: 5% on deals up to $20,000. 8% on deals between $20,001 and $50,000. 12% on deals exceeding $50,000. By closing a $70,000 deal, the rep earns: $20,000 x 5% = $1,000. $30,000 x 8% = $2,400. $20,000 x 12% = $2,400. Total commission = $5,800. An agent sells a $200/month policy and earns 10% of the premium for the first year. Monthly commission = $200 x 0.10 = $20. Annual commission = $20 x 12 = $240. If the client renews, the agent continues earning, creating long-term income streams. Despite its benefits, a poorly designed sales commission plan can lead to issues like: Demotivation: Unreachable quotas or unclear structures can frustrate employees. Misalignment: Plans that dont align with company goals can result in wasted effort. Calculation errors: Complex structures may lead to disputes if commissions are miscalculated. To avoid these pitfalls, companies should gather regular feedback from sales teams, leverage automated systems for accuracy, and align commissions with strategic priorities. Integrating performance-based pay into broader compensation plans ensures that employees remain motivated while maintaining financial security. For example, offering a base salary plus commission provides the stability of guaranteed income while still incentivizing high performance. Additionally, incorporating gamified elementslike leaderboards or bonuses for top performerscan further enhance motivation and engagement. Sales commission is a powerful driver of sales performance, offering a dynamic way to reward and motivate employees. By choosing the right structure, setting clear expectations, and ensuring transparency, businesses can create compensation plans that benefit both their teams and their bottom line. With tools like Remuner, companies can take their sales commission plans to the next level by automating processes, providing real-time visibility, and leveraging data-driven insights. Whether youre exploring tiered commission structures, residual income models, or straight commission plans, platforms like Remuner help align incentives with organizational goals seamlessly. A well-designed and well-managed plan not only boosts revenue but also fosters a culture of high performance and mutual success. Sales commission drives motivation, aligns sales team goals with company objectives, and boosts revenue by rewarding high performance. For small teams, a base salary plus commission or tiered commission structure works best, offering stability and incentives for exceeding targets. Break down total sales into tiers with different rates. Calculate commission for each tier separately, then sum them for the total. Rates vary widely: SaaS (8%-12%), real estate (5%-6%), retail (2%-5%), and insurance (7%-15%). Tailor rates to remain competitive in your industry. Clearly define quotas, rates, and calculation methods in a written agreement. Use tools to provide real-time visibility for your sales team.

Commission rules. What is standard commission for sales. Oklahoma tax commission sales tax rules. Sales commission. Sales rules. Sales commission guidelines.