

BONUS VS. COMMISSION:

HOW TO CHOOSE THE BEST INCENTIVE OPTION

What's the Difference?

Bonus



A fixed incentive amount for achieving a specific objective

Commission



A variable payment on a particular action

The Payment Structure

Based on a fixed amount



A percentage of base salary

or



A set dollar amount

Not "all-or-nothing"

Employees can earn a percentage of their bonus to promote good morale

Based on individual performance



Reps earn percentage commission rates based on individual sales performance

What Determines Compensation?

Quota

the goal sales reps aim for in order to receive compensation, although it might not determine the exact amount they will earn



Quota and performance – for the individual and the company – determine the payment structure

Based on overall business performance

The company's overall success determines bonus attainment for all departments



Quotas lead sales reps towards their potential earnings, but ultimately they are compensated on their individual performance

How to Choose the Best Compensation Structure

Ask yourself these 4 questions:



- What do we expect from sales teams in terms of performance (i.e., quota, revenue)?
- Will we be paying sales reps a base salary in addition to compensation?
- Will we be offering sales reps additional non-financial compensation?
- How can we motivate reps to achieve all of our goals within budget?

Bonus plans



Pay reps a base salary plus a bonus



Recognizes the sales rep's market value

Typically used for business that are:

- More mature businesses
- Complex selling organization
- Account management roles

Commission plans

More common option



Can be offered with or without base pay
Most companies offer base pay

Typically used for businesses that are:

- In earlier stages of business
- Introducing new business roles
- Launching new products

When should I...

Use a bonus?

When you have a more established business and want to focus on the idea of compensating sales reps at market value



Use a commission?

When you know the fixed amount of the money your business can reasonably afford to pay sales reps to sell your products/services

Or both?

Regardless of role, compensation motivates behavior

Commissions motivate sales teams, but company-wide bonuses can incentivize employees outside of the sales team