

Commission Rates

It is beyond my capability to give a meaningful opinion about what is a reasonable commission rate for your product, but there are several ways to look at commission rates.

1. If you employed a direct sales person to do the job you are considering an outsourced professional sales firm to perform, what sort of skill set, training, background, effort, and allocation of time would you look for? Would you expect less from an independent firm?
2. Is your sale a one-time event, or is repeat business expected from the same customer? Does the representative sell one and expect many more to follow? That is quite different from selling one per customer.
3. Is the product sold to a specific customer profile that a manufacturer's representative is already calling on? Can you easily identify that profile? Should 100% of them buy your product?
4. Are prospective customers already ready and willing to buy now due to previous marketing efforts? Will the representative find a receptive ear when he mentions your product?

All of these and more are factors regarding a fair commission. In the real world of my experience, rates have been as low as 1 or 2% for large, mature, ongoing, maintenance-type sales and as high as 30% for short term, sell-each-one transactions. As an example, in the late 1970s my firm sold a \$10,000 tool to manufacturers with a 15% commission rate. The sale involved multiple customer visits and product demonstrations, justifications to management, long capital approval cycles and significant after sale hand-holding. But, with a \$1500 commission expected, I spent a lot of time on those sales.

When you talk to a few representatives they will not be bashful about telling you if your commission rate is too low. If the rate you offer is too high, be glad because reps will spend a lot of time selling your product.

Best regards,

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2% COMMISSIONS?

How come companies have no problem paying credit card firms a 2% or 3% fee, but ask their reps to provide a mother lode of services for the same paltry 2% - 3%?

(From Harry Abramson in Electronic distribution Today, October 2004.)