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The Commission Plan Design Guide

Seven decisions every commission plan has to make, and the questions to ask before locking each one in. Most comp disputes trace back to one of these being decided by default instead of on purpose.

1. Revenue basis: gross or net

Gross is the total customers paid; net subtracts discounts, returns, and allowances. Gross is simpler; net ties pay to what the business keeps and makes discounting a shared decision. Whichever you choose, define it in one written sentence with a worked example.

2. Rate structure: flat or tiered

A flat rate is easy to administer. Tiers (e.g. higher rates above a revenue threshold) reward growth but require precise definitions: does the higher rate apply to all revenue or only revenue above the threshold? Marginal tiers are usually safer and cheaper.

3. Payment trigger: booked, invoiced, or collected

Paying on booked sales is generous and risky; paying on collected cash protects the business but delays reward. Many plans split the difference: pay on invoiced, claw back on non-payment past a set age.

4. The draw question

A draw against commission smooths income for new hires. Decide up front: is it recoverable (a loan against future commission) or non-recoverable (a guaranteed floor)? Define which hours or revenue pools are subject to reconciliation, precisely.

5. Splits and house accounts

Who gets paid when two people touch a sale, and what happens with accounts the business itself generates? Undefined split rules are the most common source of team conflict.

6. Clawbacks, returns, and departures

What happens to commission on refunded sales, and what is owed when someone leaves mid-period? Both need written answers before they happen, not negotiations after.

7. The reconciliation cadence

When are commissions calculated, who verifies the math, and what report can the employee check it against? A plan an employee can verify from documents they can see is a plan you will not argue about.

One caution on compliance

In some industries and states, commission on certain services carries regulatory restrictions (medical services are a common example). Before finalizing a plan, confirm the services being commissioned are ones your state allows to be commissioned, and have the agreement reviewed.