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# SPLIT INFLUENCE RECOMMENDATIONS

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FOR THE

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# ELECTRONICS INDUSTRY

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AN ELECTRONICS REPRESENTATIVES ASSOCIATION WHITE PAPER

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## **I. Why a fair split influence (credit/commission) program is important to both manufacturers and their professional field sales representatives**

As the electronics industry has become a truly global enterprise — with more and more manufacturers establishing factories in multiple locations or outsourcing their manufacturing function altogether — it has become critical for manufacturers to accurately track their business around the world. Without effective tracking systems in place, manufacturers face two risks, i.e.: losing business to competitors at the point of purchase (and even sometimes being unaware of the loss); and being unable to appropriately credit their field sales representatives for the reps' influences at various points in the sales process.

Business and compensation models that assume design, purchasing and manufacturing all occur in one location are out of date and have been replaced by many manufacturers with new models that take into account the industry's growing complexities. These savvy manufacturers recognize that, to be successful in the global arena, they must be able to "follow" their products from the early design stages through final production. That capability strengthens the manufacturers' entire sales process because it allows them to fairly compensate their field sales reps for the genuine and costly risks the reps take in acquiring new business and for the value multiple reps add to the multi-location process of taking product to market.

In many discussions, conference programs and workshops over the last several years, manufacturers and reps have asked ERA to develop industry guidelines for awarding split credits/commissions. This White Paper is offered in response to those requests and is based on the proposition that *every rep who adds value to the sales process deserves to be compensated, and that compensation should be proportionate to the time spent and risks taken by the reps.*

Most often when a sale involves multiple locations, reps who *design in* the product take a substantial risk because they can devote many months or even years to create or facilitate the creation of an application and then win the specification. During this lengthy process, these reps pay all the accompanying costs themselves because they receive no commission until a product is actually sold. For designs that never see production, reps lose their investment of time and effort. So when — and no matter where — a design win actually goes into production, the reps who have nurtured that design deserve a significant portion of the total credit/commission for producing the ultimate sale. Reps who provide services in the *purchasing and manufacturing* phases and locations of the sales process usually take lesser risks because the design has already been specified, and the business has been won. However, the purchasing location reps who negotiate pricing and service the purchase order, and the manufacturing location reps who provide support for quality and manufacturing issues certainly also deserve a portion of the total credit/commission for their important contributions that complete the sales process.

## **II. Types of Split Credits / Commissions**

In the global electronics industry of the 21<sup>st</sup> century, there are three types of situations when the need arises to award split credits/commissions:

A. Domestic — Splits occurring when a customer/manufacture's design, purchasing and manufacturing are all completed in the United States:

1) OEM (Original Equipment Manufacturer), i.e., when a customer/manufacture designs and builds a product in its own facilities;

2) POS (Point of Sale), i.e., when a customer/manufacture consolidates purchasing via a distributor that ships purchased product to the customer's facilities;

3) CEM (Contract Electronics Manufacturer), i.e., when a contract manufacturer purchases large quantities of product to fulfill multiple customers' orders.

B. NAFTA (North American Free Trade Agreement) — Splits occurring when a customer/manufacture's design is completed in the United States and purchasing and/or manufacturing may occur in another NAFTA country:

1) OEM;

2) POS;

3) CEM.

C. International — Splits occurring when design is completed in the United States and purchasing and/or manufacturing may occur in another part of the world.

*NOTE: A distinction is made between NAFTA and international splits because some manufacturers have separate companies or divisions for different areas of the world. These manufacturers may have separate (usually U.S.-based) sales management and representative networks for North America and additional organizations covering other parts of the world. In such circumstances, revenue and credit/commission sharing may need to occur across subsidiaries of a single multi-national company.*

### **III. Points of Influence**

As noted in Part I, there are three major points in today’s electronics industry sales process when one or more field sales representatives influence or “touch” the customer, sale or product. ERA’s recommended split credit/commission allocations are based on the activities of the field sales reps at these key points of influence:

A. Point of design:

- 1) Where reps provide or assist with the main design engineering;
- 2) Where the component engineering occurs (which may be a different location than where design engineering is accomplished);
- 3) In some companies, where the customer/manufacturer’s commodity team makes purchasing and supplier decisions.

B. Point of purchasing:

- 1) Where purchasing contracts are negotiated;
- 2) Where reps provide buyer support.

C. Point of manufacturing:

- 1) Where the actual component integration occurs;
- 2) Where reps assist with quality and/or manufacturing issue resolution.

### **IV. Recommended Splits**

ERA’s recommended split credit/commission allocations are differentiated for two categories of products, i.e., for design intensive and/or proprietary products which require significant risk, time and effort by field sales reps in the design locations, and for commodity products which require a comparatively smaller investment by the design location reps. *Within each point of influence, it should be noted that each allocated percentage may itself be split among several representatives.*

A. For Design Intensive or Proprietary Products

<b><i>Point of Influence</i></b>	<b><i>Recommended Split Percentage</i></b>
Point of Design	70%
Point of Purchasing	15%
Point of Manufacturing	15%

B. For Commodity Products

<b><i>Point of Influence</i></b>	<b><i>Recommended Split Percentage</i></b>
Point of Design	50%
Point of Purchasing	35%
Point of Manufacturing	15%

These recommendations assume that, even in highly complex situations, manufacturers’ payments to all involved reps will total 100 percent of the normal commission that would be paid on a single location sale.

It should also be noted that there are some instances when a manufacturer may not compensate a representative if that rep does not add value to the sales process. For example, when a product is shipped to a freight-forwarder for consolidation and shipping to the manufacturing site, the rep in the freight forwarding company’s territory adds no value to the sales transaction and may well be omitted from the split credits/commissions the manufacturer awards.

### **V. Time Limitations**

ERA strongly suggests that no time limitation be set on split credits. There are no time limitations set for traditional OEM or POS business, and ERA believes the same should hold true for split business. As noted previously,

representatives who engage in design-in activities assume a majority of the up-front risk. Limiting the time a representative receives split credit could potentially be demotivating.

## **VI. Split Credit / Commission Tracking**

In addition to these actual split credit/commission percentages, ERA strongly recommends that manufacturers have in place a formal, well-defined system for tracking split credits/commissions, from the rep's initial submission of the split request form to the payment of approved split commissions. Manufacturers' field sales representatives should have access to this process to monitor the splits they are due. Within their own firms, representatives should also have a system to similarly track the splits for which they have applied.

## **VII. Split Credit / Commission Dispute Resolution**

Since it is inevitable that disputes will arise in the process of allocating split credits/commissions, ERA further recommends that manufacturers have in place a formal, written policy to deal with such instances. Ideally, this policy, along with all field sales compensation procedures, should be included in a manufacturer's operations manual. Some manufacturers add a clause describing their dispute resolution process to their contracts with reps.

At present, there are few well-written policies addressing split credit/commission disputes. The most common practice is for manufacturers to simply specify that final decisions on disputed split credits/commissions rest with the vice president of sales or another executive of the manufacturing company. However, both formal and informal processes also exist that allow the reps to resolve their own dispute, or failing that, to bring their dispute to a manufacturer's rep council for a decision. Only when an agreement cannot be reached in these instances does the manufacturer executive become involved.

## **VIII. Alignment of Compensation**

ERA believes, and there is evidence to show, that when a manufacturer's sales management employees are compensated in the same manner as the field sales representative for split credits/commissions, the results are fewer overall problems, quicker resolution to issues and a more focused effort on accomplishing mutual goals. In other words, for example, when the compensation plan of a manufacturer's regional sales manager includes a credit/commission split calculated in the same way and paid at the same time as the rep's credit/commission split, that manager is highly motivated to track a product through multiple locations and to help ensure the rep is paid what has been earned.

## **IX. Exceptions**

ERA recognizes that there will be times when manufacturers and their reps will have to adjust or revise these split credit/commission guidelines to fit less common circumstances. Some of these instances may include:

- A. When a specific device is designed in by *multiple* reps for a customer building in multiple locations;
- B. When a specific device is designed in by a rep in one location, and the device *proliferates* to multiple boards and new products that are produced and sold in multiple locations;
- C. When reps create *reference designs* (for sample products, sample schematics, etc.).

ERA also understands that some manufacturers and reps are finding the complex task of tracking and paying or collecting split credits/commissions too time-consuming, and so they are devising alternative compensation methods. For example, a manufacturer estimates total sales (updated yearly) to a specific customer and the total commission dollars to be generated. Then, regardless of the customer's multiple locations, the total commissions are divided on a percentage basis among all the reps servicing that customer and paid out in the form of monthly retainers. The percentage awarded to each rep is negotiated, but the final decision is up to the manufacturer.

*Whenever the need arises for a particular manufacturer to construct special split credit/commission configurations or to create alternative compensation methods, ERA recommends that the manufacturer consult its Rep Council for input and advice.*

## **X. Conclusion**

ERA has developed these recommendations to help manufacturers and their field sales reps save time and resources that can be better spent on meeting their mutual sales and productivity goals. ERA hopes that the industry's adoption of these recommendations will create greater consistency where none now exists ... will strengthen manufacturer-rep partnerships ... and will improve rep-to-rep communications and cooperation across territories.