



**Business Management Guide**  
Sales Compensation Guide



# TCIA TREE CARE BUSINESS GUIDE

## SALES PERSON’S COMPENSATION

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## How to Use This Information

Methods of compensation for sales people may vary widely. There is no right or wrong way to pay sales people. Some companies pay sales people strictly on commission, some pay salary only and others use a combination of both. In some instances the amount paid to sales people is tied to the size of the company and the volume of sales.

You should use the following information concerning compensation, benefits, responsibilities and contracts for sales personnel as a guideline. The source for this data includes results compiled from 39 replies to a survey sent to the TCIA general membership (see Figure 1), a panel discussion held at the 1991 TCIA Management Conference in Tampa, Florida, and networking with other members gleaned their experiences and input.

When formulating your own method of compensation, keep in mind that you have to know your cost of doing business before you can determine fair percentages and/or salary you may want to consider paying sales people. The percentages used in this report are for illustrative purposes only. The authors did not intend them to be direct suggestions.

**FIGURE 1**  
**TCIA Compensation Survey**  
**Of the 39 replies:**

14 companies paid a straight salary  
10 paid salary plus commission  
6 paid a weekly draw against commission  
3 paid an hourly wage, one with overtime  
2 paid commission only  
2 paid a guaranteed weekly salary plus a percentage of sales  
2 did not reply to compensation questions on survey

A summary of some of the more commonly used methods of compensation and examples of each are:

- **Commission Only** - based on gross sales volume or net profitable sales  
*Example:* 15% paid monthly using \$32,000 sales volume (gross or net profitable) would be \$4800 ( $\$32,000 \times .15$ ).
- **Salary Plus Percentage** - of gross sales volume.  
*Example:* Sales person is paid a weekly salary of \$400 plus 5% of gross sales volume. The monthly compensation based on a four-week month with \$32,000 gross sales volume, would be \$1600 plus commission of \$1600 ( $\$32,000 \times .05$ ), for a total monthly salary of \$3200.
- **Salary Plus Percentage** - of net profits of sales after costs have been deducted.  
*Example:* Weekly salary of \$350 plus 50% of net *profitable* sales. Based on a weekly sales volume of \$8000 minus \$7000 for the cost of sales, ( $\$1000 \times .50$ ) would be \$850 a week.
- **Weekly Draw** - against a percentage of sales volume and/or a percentage of profits on sales.  
*Example:* a) Weekly draw of \$600 against 15% of gross sales or b) weekly draw of \$600 against 13% of gross sales, plus 30% of profits on sales. The percentage of profits on sales would be accrued by the company and paid quarterly, semi-annually, etc.

There are other popular methods of compensation, including a graduated percentage of sales (15% of the first \$100,000, 20% of the next \$100,000, 25% of sales over \$200,000) and a guaranteed draw against a percentage of sales, to name a few. Some companies pay different percentages, depending on the type of sale. They may pay higher percentages for "cold calls" than for repeat or office inquiries.

Depending on the size of your company, your volume of sales and your location, you have to decide which method best meets your needs.

When to hire a sales person is also a personal decision. You must consider many factors, such as: the number of customers you feel one person can service effectively and comfortably, the size of your geographic territory, dollar volume of your business, growth rate and so on. Experienced tree care sales managers suggest that a reasonable dollar volume expectation from one sales person would be between \$225,000 and \$350,000. This amount could be larger, depending on your particular business and situation.

You can project the sales volume needed to support a sales person's salary and expenses simply as follows. Suppose you decide the time is right to consider hiring a sales person. The salary and cost you project equal \$4000 a month. If your financial statement is showing a 20% net profit before taxes, you need \$20,000 monthly in additional sales to maintain that level of profit.

### **Benefits**

Benefits offered to sales people also vary widely. Some of the more standard ones are discussed below.

**Vehicles.** Accepted methods for reimbursing vehicle expense include:

- Monthly Allowance - an agreed upon amount paid monthly, regardless of mileage or expenses.
- Mileage Reimbursed - sales person keeps daily log of mileage and is reimbursed a specified amount per mile. Usual mileage reimbursement is currently 40.5 cents\* a mile.

\* 2005 Rate: Visit [www.irs.gov](http://www.irs.gov) for the latest rates.

- Expenses Reimbursed - sales person keeps a log of all expenses: gas, insurance, repairs, etc., and is reimbursed 100% by the company.

- Full Use - of company-provided vehicle.

**Insurance** Here are some of the more common insurance benefits offered:

- Medical Insurance - offered as per company policy, fully or partially paid. This benefit can also be tied into sales volume performance. *Example*, if the sales person reaches his/her yearly sales goal, the company pays 100% for the following year.
- Life Insurance - most companies offer term life insurance. Since the premium is usually very reasonable for term life insurance, the company usually pays 100%.
- Disability Insurance - depending on the age of the sales person, the premiums are on the expensive side.

**Vacation.** Sales people usually get 2 to 4 weeks vacation a year. Your vacation policy should be consistent with company policy and the means by which you determine individual eligibility.

**Education Expense.** This would include sales courses, technical seminars, special studies related to the technical nature of the business and/or college courses. Management must authorize the expense in advance and reimburse 100% or determine an annual allowance in advance.

**Deferred Compensation.** Here are some of the more popular options:

- Company Pension Plans
- Profit-Sharing - percentage of profits, determined by the company and paid annually.
- 401(k) Plan - employee contributes up to 15% of his/her income tax-deductible. The company matches up to a certain percentage, as per government regulations.

## Sales Representative Responsibilities

In addition to bringing in sales, responsibilities include some, if not all, of the following:

- Job Supervision/Quality Control - organization of the job, instructions to the crew performing the work to be sure the crew completes the job in an efficient and professional manner and in accordance to the sales person and customer's specifications.
- Job Costing - recording the company charges for labor, materials, equipment, machinery, etc., that are applicable to a particular job.
- Collection/Invoicing - duties range from the actual invoicing of the completed jobs to phone contact with customers to collect past-due amounts.
- Training/Safety - conducting company safety meetings, instruction in proper work methods and enforcement of company safety rules.
- Other - handling customer complaints, scheduling work, hiring field employees, writing weekly reports of sales activity and company newsletter articles.

## Other Pertinent Information

**Contracts.** The contracts used for sales personnel are as numerous and as varied as the many different forms of compensation used (see the sample contract on the

following page). They should contain information on:

- Length of Current Contract
- Method of Compensation
- Company Benefits
- Sales Goals and Special Incentive Criteria
- Company Responsibilities
- Sales Person's Responsibilities
- Terminations and Non-Compete

**Territory.** Sales Managers usually assign geographic territories. You can use zip codes, counties, neighborhoods, streets, etc., to delineate territory. Inquiries to the company are assigned to the sales person who is responsible for that territory. The same sales person handles that client's repeat business.

You need to outline specific terms and conditions in your contract with your sales person. It is very important to have a lawyer review every document you draw up. An alternative is to have your lawyer draft a contract with your terms and conditions for your review and approval. Contracts can boomerang. You need professional knowledge of the law and advice on any pitfalls, which could affect you, your company or your heirs.

## **Sample Contract for Sales Personnel**

*A basic and simplified contract would include the following terms and conditions:*

### **Company Responsibilities**

- 1) This agreement, beginning January 1, 1992, and continuing in effect for the period of one year, sets forth the obligations and responsibilities of XYZ Tree Service Co. (hereupon called "XYZ") to John Doe, Sales Representative, and of John Doe, Sales Representative, to XYZ.
- 2) XYZ will provide John Doe with the following benefits and support:
  - a) Compensation - (state your intended method of compensation)
  - b) Company benefits - (list benefits in accordance with your company policy: medical pension, insurance, vacation, etc.)
  - c) Vehicle - (state provision, allowance and reimbursement terms)
- 3) In addition, XYZ will provide other benefits as follows:
  - a) Special bonuses or incentives - (specify any special bonuses and/or incentive programs and the criteria by which each will be awarded (sales volume, percentages, etc.))
  - b) Education, seminars, travel - (list all that your company will allow)
- 4) Territory - specify the territory you are assigning John Doe, clearly stating all boundaries. *Example:* from Queen Road to the north to King St. to the south, bordered by Princess Lane to the east and Prince Ave. to the west.

The above sales support services, benefits and compensation are provided with your understanding that XYZ's minimum expectation for sales (specify gross or net profitable) from clients for whom you are the sales person of record is (state dollar volume) for 1992.

### **Sales Representative Responsibilities**

- 1) You will find, develop and close business with new and existing clients within the specified territory (ies) assigned to you.
- 2) You will supervise work in progress for said clients.
- 3) List other responsibilities and/or exception, such as: collections, training of personnel, safety meetings, training, etc.

## Non-Compete Clause

*It would be wise to include something to address this problem in the event the employment is terminated, even voluntarily, like:*

In the event you leave or are separated from XYZ's employment, you agree not to solicit, either directly or indirectly, business from, or undertake with any customers serviced by you while in the employ of XYZ, or any other XYZ customers for a period of two years thereafter. In addition, you understand that, upon such separation, XYZ will have the right to send a letter to any or all of your former clients, advising them that you are no longer in the employ of XYZ and that their account has been turned over to another XYZ sales representative.

In addition, you agree that you will not solicit, either directly or indirectly, employees from, or of, XYZ or any other XYZ employee for a period of two years thereafter.

Date: \_\_\_\_\_

XYZ TREE SERVICE

By: \_\_\_\_\_  
(Name & Title)

Date: \_\_\_\_\_

Accepted: \_\_\_\_\_  
(Name, Sales Representative)