

Outside vs. Inside Sales Reps: How Compensation Packages Differ

By Nick Azar

The primary objectives of an outside vs. inside sales rep differ: the outside rep is responsible for developing customer relationships and sales whereas the inside rep handles account maintenance. Consequently, their compensation packages vary significantly. Here are some industry averages and general guidelines based on my experiences consulting with laboratories for the past 10 years.

Salary: For an outside sales person, the average annual compensation package—including salary and commission—is \$48,000 to \$52,000; out-of-pocket expenses are additional. Typically, an outside rep is guaranteed 40% of his annual income in fixed salary; the remaining 60% is earned through commission. You might consider a scale down model salary for the first twelve months, meaning you start with a higher salary at the beginning of the year and lower at the end when the rep begins earning sufficient commission.

To minimize paperwork for both the lab owner and the rep, I suggest allocating a specific dollar amount for out-of-pocket expenses up front; the sales rep absorbs any expenses above that amount. He simply has to submit a receipt acknowledging he received payment for his out-of-pocket expenses, which usually cover anything used to facilitate the business such as car allowance, meals, telephone and entertainment.

The typical salary for an inside sales person is \$24,000 to \$36,000 per year and similar to the outside rep, 40% of that is fixed salary and 60% is commission.

Commission: An outside sales person's average commission is about 8% of sales when you factor in out-of-pocket expenses. You have two payment options: pay a high commission inclusive of all out-of-pocket expenses, meaning you can go as high as 10% of sales; or you can pay a lower commission—as little as 5%—plus out-of-pocket expenses.

Commission for outside reps works somewhat similar to salary; you can start high and end low. The scale down commission concept gives the outside sales rep the financial incentive to develop customer relationships and business transactions rather than simply maintain accounts. In other words, acquiring new clients should earn the highest commission and the commission on established accounts should decrease over time. In fact, commission on each customer should cease after the third or fourth but no later than the fifth year; at that point, the customer becomes a house account and he doesn't receive any commission. However, the outside rep should still receive other benefits based on these clients, such as bonuses for referrals or achieving a territory goal and counting these customers' sales as part of his total sales goal.

The inside sales rep's commission percentage is much lower, about 4% on average. Using a down scale method, the commission can be as high as 6% during the first two

years and as low as 2% for the life of the account. The inside rep can continue to earn a minimal residual commission for maintaining the house accounts.

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