



## COGS Thoughts - The Rope

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Cost of Goods Sold has always been a central theme in my career. COGS determined productivity, and by extension, my paycheck. Since 1986, in my first kitchen cabinet representative role, COGS was measured on every single line on every single invoice, and commissions were paid accordingly. Below 33% garnered a 16% share of the gross profit. Over 33% and I received 20%. Obviously, the numbers were burned into my brain.

As a sales manager, the genius of that commission plan became evident. Through transparency and accountability, salespeople focused on the same goals as ownership. If I made a low margin deal, I cringed inside, just like the owner would do if he/she saw what I did. Too many low margin deals made us all look at what we were doing with a critical eye. It hurt. The lost commission for me, as well as the lost profit for ownership. High margin deals helped us direct traffic and focused our effort – together.

Years later, I used the cliché “pulling on the same rope, in the same direction” as a guide to revise the pay plan structure for a kitchen cabinet manufacturer. The company sold to 3 very distinct and different groups: retail, small builder & large builders. The COGS for all three groups were completely different, and yet the sales staff were all compensated based solely on the sale amount. This rate was so entrenched that it created a contentious relationship with the salespeople - especially when management attempted to lower it for low margin customers.

By introducing 3 distinct commission rates, I brought the ownership’s COGS reality in line with the efforts of the sales team. Retail sales now receive a higher commission rate and large builder sales receive a lower rate. As owners we understand why: retail sales are no repeat, high margin, highly competitive and require “hard closing” sales skills, whereas a large builder reflects the lowest margin, low competition rates and more of an administrative salesperson. **By increasing and decreasing commission rates I was able to explain and sell the plan to bring the sales staff effectively pulling on the same rope, and in the same direction as ownership.**

COGS is the key indicator for our success, and I thought it an appropriate name for my corporation. How we approach sales and purchasing management will determine our success. You have chosen well by working within a group such as the CKCA – because we all do better when we work together; pulling on the same rope, in the same direction.