

Case Study: Making 9% Commission Work

A Cost Structure the Market Had Not Considered

How a business was built on economics the whole market had dismissed as unviable.

The Situation

IBM ran a sales agency model that predated its reseller channel. Software companies recommending IBM hardware for their applications earned commission on the hardware sale, at one point as much as 25%. At that rate it was a healthy addition to their own revenue. Over time IBM cut the rate. By 9% they had stopped bothering, because the commission no longer justified the effort alongside selling their own product, and nobody was going to run an agency as a business in its own right at 9%.

The Opportunity

They were right about the numbers and wrong about the assumption underneath them. Everyone looking at this ran on the same cost base: offices, and the overheads that come with them. Against that structure, and as a sideline to something else, 9% genuinely did not work. We modeled it as a standalone business with no office at all and the whole team working from home. Against that cost base, the model projected a 40% net margin on 9% commission alone.

The Approach

- **Built the model before the business.** The 40% net margin came out of a financial model built before anything was committed. The cost structure was designed to make the commission rate work.
- **Removed the office entirely.** Everyone else was paying rent and everything that goes with an office, and taking that out was where the margin came from. It meant installing ISDN lines in people's houses when telecoms companies only put them in commercial premises, and equipping everyone with laptops, portable printers and projectors. It also let the business hire anywhere in the country.

The Result

£1.2m in commission and £500k of net profit in the first year, close to the margin the model had projected.

British Telecom wrote up the business as a case study and promoted the model to 10,000 of its small business customers.

The Lesson

At the start of the second year IBM cut the commission from 9% to 5% and the business went to breakeven overnight. The first year's profit funded what came next, and four more business lines followed on the way to \$80m in revenue and 500 employees. A partnership can be worth a great deal, and when it is too large a share of income the other party controls your economics.

Growth Pillars Applied

Channels & Partnerships

Sales & Marketing