

Cost Benefit Analysis of Business Development Officers

by Dave Rains

There has been a lot of run-off in the portfolios around the US in factoring portfolios. Many accounts that used to be \$1 million a month are down to \$200k. Some of your clients have either shut their doors or the outstandings have decreased to the point, you wonder why you are even still keeping them as a client. To that end, factoring companies are looking for new ways to generate business. I would like to explore what the true costs of a BDO are in the market today versus a broker arrangement of 10%-15%.

The first thing that must be examined is the base salary component. The ranges on base salaries across the US are as varied as the number of different companies. They range from 30k all the way up to 100k. Of course as the base salary goes up, the commission structure must go down. Therefore, what is the right mix for each and further just what must they generate to be worth the outlay.

Let's take two examples of commission plans that are currently being utilized in the US. One plan pays a base of 75k and 5% commission on the life of the deal, the other 50k base and 7% on the life of the deal.

Assuming \$75K Base w/ 5% Commission Structure

Outstandings	\$ 1,000,000.00
Monthly Fees Generated (.025 of outstandings)	\$ 25,000.00
Annual Revenue Generated	\$ 300,000.00
Base Salary	\$ 75,000.00
Benefits	\$ 9,600.00
Commission (5% of fees generated)	\$ 15,000.00
Car Allowance	\$ 6,000.00
Cell Phone	\$ 1,200.00
Misc. Marketing Expenses (Meals, Office, etc.)	\$ 6,000.00
BDO Marketing Cost	\$ 112,800.00
****% Cost of BDO vs. Revenue Generated	37.60%

Assuming \$50K Base w/ 7% Commission Structure

Outstandings	\$ 1,000,000.00
Monthly Fees Generated (.025 of outstandings)	\$ 25,000.00
Annual Revenue Generated	\$ 300,000.00
Base Salary	\$ 50,000.00
Benefits	\$ 9,600.00
Commission (7% of fees generated)	\$ 21,000.00
Car Allowance	\$ 6,000.00
Cell Phone	\$ 1,200.00
Misc. Marketing Expenses (Meals, Office, etc.)	\$ 6,000.00
BDO Marketing Cost	\$ 93,800.00
****% Cost of BDO vs. Revenue Generated	31.27%

Outstandings	\$ 2,000,000.00
Monthly Fees Generated (.025 of outstandings)	\$ 50,000.00
Annual Revenue Generated	\$ 600,000.00
Base Salary	\$ 75,000.00
Benefits	\$ 9,600.00
Commission (5% of fees generated)	\$ 30,000.00
Car Allowance	\$ 6,000.00
Cell Phone	\$ 1,200.00
Misc. Marketing Expenses (Meals, Office, etc.)	\$ 6,000.00
BDO Marketing Cost	\$ 127,800.00
****% Cost of BDO vs. Revenue Generated	21.30%

Outstandings	\$ 2,000,000.00
Monthly Fees Generated (.025 of outstandings)	\$ 50,000.00
Annual Revenue Generated	\$ 600,000.00
Base Salary	\$ 50,000.00
Benefits	\$ 9,600.00
Commission (7% of fees generated)	\$ 42,000.00
Car Allowance	\$ 6,000.00
Cell Phone	\$ 1,200.00
Misc. Marketing Expenses (Meals, Office, etc.)	\$ 6,000.00
BDO Marketing Cost	\$ 114,800.00
****% Cost of BDO vs. Revenue Generated	19.13%

Outstandings	\$ 3,000,000.00
Monthly Fees Generated (.025 of outstandings)	\$ 75,000.00
Annual Revenue Generated	\$ 900,000.00
Base Salary	\$ 75,000.00
Benefits	\$ 9,600.00
Commission (5% of fees generated)	\$ 45,000.00
Car Allowance	\$ 6,000.00
Cell Phone	\$ 1,200.00
Misc. Marketing Expenses (Meals, Office, etc.)	\$ 6,000.00
BDO Marketing Cost	\$ 142,800.00
****% Cost of BDO vs. Revenue Generated	15.87%

Outstandings	\$ 3,000,000.00
Monthly Fees Generated (.025 of outstandings)	\$ 75,000.00
Annual Revenue Generated	\$ 900,000.00
Base Salary	\$ 50,000.00
Benefits	\$ 9,600.00
Commission (7% of fees generated)	\$ 63,000.00
Car Allowance	\$ 6,000.00
Cell Phone	\$ 1,200.00
Misc. Marketing Expenses (Meals, Office, etc.)	\$ 6,000.00
BDO Marketing Cost	\$ 135,800.00
****% Cost of BDO vs. Revenue Generated	15.09%

As you can see from the above example and simple economic theory, as the production goes up, the percentage cost of the marketing BDO goes down. Of course, these costs are lowered again significantly if your client stays on more than one year as your fixed costs are all in the first year of the deal. You need this flexibility anyway because if you have a really good client and they are approached with a better rate, then you need the flexibility to lower that rate and not be hit by the high costs of the base and other expenses in that first year.

So, what one might surmise from this is that the minimum acceptable level of production for a BDO would have to be consistently in the 2-3 million monthly outstandings range for the company to have a decent percentage of return on the money expended. A strong producer will easily outstrip any cost benefits of utilizing brokers.

It is easy to see where a broker is: because you owe him 10%-15% on the life of the deal, the whole deal. The additional costs of a broker are: added time for you to train them in your credit criteria, added risk of the deal (as you might not have full disclosure on the intricacies of a deal), marketing expense locating brokers, payroll of someone with whom the broker talks to and forms a relationship, etc.... So, it is not just the initial percentage, there are soft costs to be considered as well.

An additional observation might also be that a high producer is worth a higher base and a lower commission structure as long term, the company makes more money. The highest producers know this and will not demand a high base but a better commission plan. That is what I love a BDO to say to me. As a recruiter, you would think that I would like to keep base salaries as high as possible; however, my belief is that a salesman should be paid on selling; therefore I would rather see a good BDO get a higher commission and a lower base. This lowers my fees; however my goal is to help companies succeed, not to bill a few extra dollars on an invoice.

Dave Rains is one of the nation's foremost recruiting professionals. With over 27 years of sales/recruiting experience and an honors graduate of SHSU, he has earned a reputation as an expert in the placement of Business Development and Operations professionals in Commercial Finance. Throughout his career, Dave has been recognized as a top performer within the MRI family of over 1,000 offices. He has been awarded 16 national and regional awards including "Southwest Account Executive of the Year - 2001". He consistently ranks in the "Top 10 in the Nation" of the vast MRI family of over 5000 recruiters.