

DESIGNING SALES COMPENSATION PLANS

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Xactly was founded with one mission in mind: to help companies inspire performance. Building a sales team and compensating them properly requires careful planning, and in order to ensure that you provide the right incentives that help your company achieve growth and success, you need to think strategically about the design process of your sales incentive compensation plans. With careful consideration and thoughtful design, you can inspire your teams and empower them to perform above and beyond the competition.

In this eBook, you will learn more about these tactical plan design strategies, including:

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HOW TO PREPARE FOR A SALES COMPENSATION PLAN DESIGN PROJECT

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CONCEPTS IN SALES COMPENSATION PLAN DESIGN

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TYPICAL ROLES WITHIN A SALES TEAM

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UNIQUE CONSIDERATIONS FOR DIFFERENT SALES ROLES

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BEST PRACTICE PLAN COMMUNICATION

HOW TO PREPARE FOR A SALES COMPENSATION PLAN DESIGN PROJECT

When creating a sales compensation plan, you need to involve just the right number of people – no more, no less. You need executive support for incentive compensation across your entire organization, but having too many people means too many agendas. Conversely, if too few people are involved, you won't have enough information to pull your plans together. It's a delicate balancing act. Leadership buy-in is essential and the stakes are high.

SALES

A senior representative from sales (VP, Director, etc.) is the person best connected to both company goals and staff capabilities. He or she will keep other executives' expectations reasonable, while pushing for aggressive results.

MARKETING

Sales and marketing should work hand in hand. A senior representative from marketing can share information on upcoming product releases or announcements that may affect the flow of sales.

OPERATIONS

Sales compensation plans often affect processes, so make sure you get operations in the room. They can tell you what processes would need to change to accommodate what you want to do. For instance, they'll be able to say, "If we compensate on X incentive, we'll need to change our data flow in Y way."

COMPENSATION ANALYSTS

Having a compensation analyst on your design team can help you understand how new incentive compensation rules will affect payouts. Are the rules reasonable given the current compensation structure and capabilities?

OTHER TEAM MEMBERS

If possible, have a sales team representative "gut check" the feasibility of the sales performance plan. They'll help you make sure you structure your incentive plans to accommodate the role your salespeople play in the sales cycle. It can also be valuable, if necessary, to invite a third party to the team meeting; someone like a sales compensation consultant, whose unbiased opinion can help settle debates and neutralize office politics. A consultant can bring industry knowledge to the table, and may have suggestions you won't have thought of.

PULLING THE PLAN TOGETHER

With the right number and balance of team members, you're more likely to have success with your sales plan in a difficult market. Collaborating with the right brainpower can help you create a sales plan that just about everyone can agree on.

CONCEPTS IN SALES COMPENSATION PLAN DESIGN

Now that you understand who should be involved in the sales compensation design process, let's examine concepts and components of a sales compensation plan, as well as a few overarching principles that should guide plan construction. At Xactly, we like to think about them as the "ABCs" that form a foundation for well-designed sales compensation plans:

Aligned to sales roles

Based on company culture and philosophy

Constructed to drive the right sales behaviors

ALIGNED TO SALES ROLES

At the heart of sales compensation design is the concept that different sales roles will require different compensation plans. Different plans should be tailored to what you are asking each role to perform in the sales process. A one-size fits all approach simply does not work.

BASED ON COMPANY CULTURE AND PHILOSOPHY

Your company has a distinct culture and the sales team is no different. Before you get into designing plan details, you should consider a couple of key questions concerning the culture you want to build in your sales organization:

- How do you want your pay to be compared to the market?
- What is the difference in pay you want to have between high and low performers?

The answers to the two above questions will help you think through how rewarding and how punishing you want your plans to be.

CONSTRUCTED TO DRIVE THE RIGHT SALES BEHAVIORS

A well-built compensation plan must have its plan framework aligned with company goals. What are your corporate goals for the year? What are your revenue targets? What are the requirements for new product or service introductions? Ensuring that your plans are focused keeps them simple, allows both sales reps and managers to know what they are aiming for, and ultimately drives the right sales behaviors.

After you have thought through the ABCs, it is important to take a holistic and structured approach to designing your plans. Below is an approach for the elements of a compensation plan that you will want to construct for each distinct sales role:

PAY AT-RISK OR ADD-ON BONUS

A fundamental concept of most sales compensation plans is the idea of "pay at risk." This means that in order for a sales rep to achieve their On-Target Earnings, they will need to perform at an agreed upon level (a quota or goal) to receive that target pay. In exchange for the pay at-risk, you should provide upside that rewards reps for surpassing their goals.

A distinct approach from pay at-risk compensation plans is to utilize an add-on bonus. Simply put, add-on bonus plans do not put pay at risk. Rather, they provide an additional bonus amount on top of salary that can be earned for either individual or team performance. This type of plan is typically seen more in sales support or non-sales roles. For our purposes in this document, we will assume that your sales compensation plans will utilize a pay at-risk approach.

PLAN ELIGIBILITY

Plan Eligibility answers a fundamental question: Who should and should not be on a variable compensation plan? While it might seem obvious, the answer is not always so clear. As a good rule of thumb, for someone to be on a compensation plan where pay will be placed at-risk, their role should:

- Have significant contact with prospects or customers
- Influence customers to take financially beneficial action
- Have high level of sales process involvement or ownership
- Be defined by clear and quantifiable sales objectives

ON-TARGET EARNINGS (OTE)

This is the amount of earnings attained when an individual rep achieves his/her targets. The OTE should be based on a specific job role and experience level and it's best to set a range for each role and level. There are many sources of market data including Xactly Insights™ (www.xactlycorp.com/insights) as well as compensation surveys.

Properly setting OTEs is critical to ensuring that your compensation philosophy is properly followed and the sales organization is treated fairly. Given the sensitive nature of this data, it often makes sense to partner with Human Resources, who has likely developed a career progression model for the sales team and its various roles.

PAY MIX

Pay Mix expresses a ratio of base salary and target incentive to On-Target Earnings (OTE). For example, a 60/40 Pay Mix means that 60% of OTE is base salary, and 40% of OTE is Target Incentive (TI). A more “aggressive” pay mix tends to be in the 50/50 or 60/40 range while a less aggressive range tends to be 80/20 or 90/10. There are a number of factors that can contribute to how aggressive your Pay Mix should be, including the type of selling, the length of the sales cycle, and the amount of transactions.

Generally speaking, jobs with the most influence on the purchasing decision should have a more aggressive pay mix. Reps with a longer and more varied sales cycle as well as those who have more consultative or strategic types of sales should have a less aggressive pay mix. And since managers have a wider set of responsibilities than selling, their pay mix should be less aggressive than the reps that report to them.

PLAN COMPONENTS AND WEIGHTS

Plan components define what and how you will be measuring each particular sales role. The components should be easy to understand and objective in nature to drive the proper sales behaviors. It is also important to keep your team focused by limiting the number of components each sales role carries to no more than three. Sales teams with too many goals aren't able to focus on the goals that mean the most to the company and to their bottom line. Weighting the components should provide clear direction to the rep about what is the relative priority of each component.

In constructing Plan Components, they should be:

- Aligned to job roles and responsibilities
- Relevant to the individual rep who can influence the outcome
- Forecasted and tracked with relative ease
- Focused on a particular output or result

Here are a few additional thoughts on individual versus team-based goals:

- The majority of variable pay should be based on individual achievement, and sales reps should be held accountable for things they can control. Placing an individual's pay at risk based on team results may not be seen as fair and could lead to increased turnover.
- There are ways to encourage a team atmosphere and build a culture where everyone works together. Team bonuses can be good contests or accelerators to individual performance. Rather than basing incentive pay on team performance, opt for rewarding the team with contests or accelerators.

PLAN MECHANICS

These are the mechanisms by which a rep is measured and paid out based on his/her performance. While there are many options for plan mechanics, there are generally four mechanic types that are seen most often: Commission Rate, Percentage to Goal, Rank, and MBO/KSOs. Below is a brief overview of them:

COMMISSION RATE

Pays a set percentage or set amount per unit sold

A commission rate plan is best used when there is a desire for simple plan design and territories are relatively equal. This type of mechanic is simple to communicate and can be extremely effective for Hunter roles. On the other hand, they can be too simple at times and unfair when large discrepancies in territories exist.

PERCENTAGE TO GOAL

Pays a percent of target incentive for each percentage of quota attainment

This plan is best utilized when territories are unequal and individual quotas can be set with reasonable accuracy. On the other hand, these types of plan mechanics can quickly become complex, so steps must be taken to ensure the mechanic is constructed to be simple for communication and administration purposes. One additional note: For organizations that prefer to communicate an actual commission rate to individuals, you can use a "personal commission rate" which is based on an individual's target incentive and quota.

RANK

Reps are ranked against each other and paid based on relative performance

This type of plan mechanic allows for a single goal and focus for reps but is not necessarily linked to an overall sales goal and may cause unnecessary internal competition. It's best used in situations where there is a singular focus and goal and competition is deemed acceptable.

MBOS

Reps are rated by their manager on a set of performance objectives

This type of plan mechanic is flexible and allows for measuring each rep according to their specific performance objectives. It also requires infrastructure to set goals and rate reps, and when not managed properly, can become a "giveaway" program. MBOs are best used in roles with long sales cycles or where there is a focus on specific milestone achievements.

UPSIDE (LEVERAGE)

Upside defines how much pay will occur when reps and managers overachieve against their goals. The proper amount of upside helps motivate reps and rewards them for overachievement.

Some key questions to consider for determining upside include:

- What is considered “top performer” status (top 10%) for each plan component?
- How much do we want to reward a top performer as compared to those at target?
- Do we want to institute a cap or decelerate payouts at a certain point of performance?

Roles with the most influence on the purchasing decision should have a higher upside earning opportunity. In typical Hunter roles, you will see top performers paid three times more than those who perform at target, while for typical Farmer roles, you will see top performers paid two times more. Plan caps are generally demotivating for reps and thus should be used sparingly. In most cases, a decelerator can be used in place of a cap to reward overachievement while keeping costs under control.

When thinking about managers, there is generally less upside afforded them as they are responsible for a larger set of activities than closing business or managing existing accounts. This is done by design to ensure the Captain doesn't start to become a Hunter.

It's worth noting that performance scenarios should be modeled to ensure that the payouts are reasonable, responsible, and are consistent with the compensation philosophy you have determined.

ACCELERATING YOUR SALES TEAM'S SUCCESS

Sales people love accelerators: Those increased commission rates that kick in after reaching a target. Who wouldn't? But run a few reports, and you'll see two-tiered compensation plans mean almost everyone fights to get above that accelerator... and then drastically slow down.

This could mean you're setting up quotas perfectly, of course. Or it could mean that sales reps are slowing down their behavior when they stop making more money. In fact, they might be saving deals to punch up their earnings next quarter.

But the right incentives can produce killer sales results. Salespeople will do their best when your sales compensation plan encourages it. If you increase the incentive for reaching higher commission tiers, you're likely to see increased sales performance.

One way to do this is to implement multiple accelerators and create commission tiers. If you reward for hitting quota, you should also reward for sales performance above quota. When salespeople prosper, your business does too. Higher rewards for higher performance raise the payoff for salespeople—pushing them to bring in even more revenue. And who wouldn't want more of that?

PERFORMANCE PERIOD

This is the time period in which you measure performance. The easiest way to think about the right performance period is that it should reflect the length of the sales cycle and it should take into account sales management's ability to set accurate quotas. Typically, you will see Annual, Semi-Annual, or Quarterly performance periods.

PAYOUT FREQUENCY

This is how often you will payout based on a rep's performance. In general, Xactly recommends you make your payments immediately whenever possible, as rewards that trail achievements by more than a few weeks lose their effectiveness. Paying as close to the sale as possible also ensures proper cash flow to reps, particularly for those who have a more aggressive pay mix. Typically, you will see monthly or quarterly payout frequency.

QUOTAS

Quotas define the targets you expect of your sales rep or manager, so getting them right is an important step. Questions you should consider when setting quotas include:

- What are the quotas for each component?
- Will quotas be the same for each person in the same role?
- Will quotas be different for the same role due to territory or account differences?
- What process should we use in setting quotas? Top down? Bottom up? Combination?

Quotas should be realistic and fair and set in a manner so that 60-70% of reps will perform at or above their quota. Using a well-documented and consistent methodology to set quotas is also recommended. Xactly Quota™ can assist you in the decision making and quota allocation process.

THE DEAL CLOSED, NOW PAY UP!

Not too long ago, before a rep would leave for an appointment, a sales manager would say, "Come back with the purchase order or don't come back at all." In those days, the sales cycle consisted of getting the lead, chasing the deal, fighting over redlines that were being faxed back and forth, generating a purchase order, and then waiting for a "wet" signature to finally book the business.

Unfortunately, companies would often wait until the next month's pay cycle to hand over a commission check (and if reps were lucky, they didn't mess-up the calculations). By the time the check was received, reps had already moved on to chasing new business, and the last win was no longer on a rep's mind.

When reps finally got paid, the link between their work and the incentive payment was tenuous at best. Yes, they got paid, but it took way too long – and the delay was due to the company's antiquated systems and processes, and had nothing to do with their work as a sales rep.

The world has changed – instead of faxing information back and forth companies now use DocuSign to get the deal done faster. The problem is that after the digital signature is recorded, companies are still waiting way too long to pay their sales teams. This takes an incentive program and turns it into a battle between the reps and finance. We want reps selling, not standing around asking finance when they'll get their check, or arguing over disputes.

There is no reason to delay – pay the sales team as close as possible to when their role in the deal is done. Once the deal is "Docusigned," it should be automatically entered into the financial system, and that should trigger a calculation of the rep's commission check. All of this is handled easily with integrated software systems, and automation of the process. Now, you can quickly go from digital signature, to purchase order, to commission check and get reps back on the street selling, instead of focusing on paperwork.

Use your incentives strategically so that they inspire employee performance. Take advantage of the modern digital world and let your sales team benefit from automated connections by paying out their incentives accurately and on time. If the deal is Docusigned, it's time to pay the rep.

CREDITING

Who should get credit for each sale? It's an important question and in a single seller model, it's fairly obvious: The rep! However, when more roles are involved in the selling process, it isn't always so obvious. When setting up a crediting policy, keep these tips in mind:

- Credit the right number of individuals: That is, give credit to those who truly had an effect on the achievement of the sale. This is best measured as those who have persuaded the customer to buy.
- Don't pay for something that is part of someone's job. Those activities should be covered by base salary.

ADDITIONAL REWARDS

PRESIDENT'S CLUB

Taking key team members on a trip is a long held incentive tool, but it's a classic because it works. President's Club serves to elevate and clarify top performers, and set the bar for everyone else. It's an effective motivational tool that plays nicely into your team's natural competitiveness. Always ensure your club award has appropriate representation from various roles and geographies within your sales organization.

SALES CONTESTS AND SPIFS

As a quick reward for selling a hard-to-move product, earning more customer recommendations, or achieving any number of business goals, sales contests recognize work as it happens in a public manner that inspires others to achieve. A reward of a spot bonus or gift card can be really effective. Just be sure these spot bonuses stay limited to a certain time period and dollar amount. You don't want these special incentives to become the compensation plan.

RAISE THE PERFORMANCE BAR & MAKE IT WORTH IT

A college track coach who sets the high jump bar no more than 6 feet will train his athletes to clear it. But it's doubtful they'll go much higher. Since the athletes only need to clear 6 feet to be successful in the eyes of their coach, most will weigh the training and hard work that goes into jumping higher against the benefits, and decide it's just not worth it.

In the same way, when you set sales quotas at a certain level but provide no incentive for reps to reach higher, they're not likely to make an effort to further improve their sales performance. According to data from Xactly Insights™, Xactly's empirical compensation database, only about one-third of reps meet 120% or more of target incentives. An incentive attainment curve shows a spike at 100%, with drop-off as the percentage of quota attainment climbs.

Why? It's human nature to relax after a goal is met. If your organization experiences a drop in sales performance after quotas are met, follow these four steps to push reps to reach their full potential:

- 01** Set the bar at the right place. If you set the bar too low, reps are unlikely to reach higher. If you set it unrealistically high, they might feel discouraged and give up. Use historical data to determine attainable goals, and then set stretch goals that can be met.
- 02** Make it worth it. Just like the track coach has to incent athletes to jump higher, you have to motivate sales reps to perform beyond quota. When the rep weighs the cost (effort) against the benefit (compensation), compensation must be structured so the benefit emerges the clear winner.
- 03** Don't cap your plan if at all possible. Your compensation plan must drive the behavior you seek. If sales incentives are eliminated after reps meet 120% of quota, you are sending reps a clear signal to stop once that level has been met.
- 04** Shoot for the right performance distribution. Give your incentive compensation plan some time to align with your goals and then revisit data to determine if rep engagement has improved. If reps are still just meeting or barely exceeding quota, take a closer look at your compensation plan and the actions it's driving.

If your sales reps are just hitting quota, it's because they're only meeting the expectations you set. Raise the bar, make their efforts to reach it worthwhile, and they will jump to new heights.

ROLES IN TODAY'S SALES TEAMS

Today's customer is increasingly better informed. With the ease and convenience of the Internet, more potential customers are coming to you, rather than you having to hunt them down. Companies go through several phases of growth as they move from acquiring "early adopters" to finally winning over "marquee reference" customers. As you go through these stages, building out the sales team does not mean just adding more and more reps to cold-call. That's because the more high profile your company becomes, the more ways potential customers will have to reach out to you. You need to have a team in place to not only win big deals, but to nurture those early adopters so they stay customers and act as great references. Companies need to provide support to their increasingly specialized sales team as growth continues.

Here's how a company's life cycle can evolve over time:

STAGE ONE

One-off inquiries made by incoming potential customers are handled by the existing sales team, which is also charged with nurturing existing customers into returning customers.

STAGE TWO

As in-bound requests increase in volume, and more customer references become available, a dedicated Hunter is added to the team. This person does not nurture the clients they bring in. Marketing and product development teams expand to ensure that products and marketing collateral supports the new markets.

STAGE THREE

A complete team is built (Hunters, Specialists) and aggressive selling commences. A SPIF for total initial market penetration should be considered to reflect the desire to hit hard and fast.

STAGE FOUR

Additional team members and roles are added based on validated ratios:

- Prospectors (one prospector for every X Hunters)
- Farmers, once there are sufficient existing customers to manage
- A Captain to manage the complete team

SALES TEAMS ROLES

A highly productive sales team is made up of a number of specialized positions that together serve to round out your team. These different roles are responsible for different parts of the sales process: Finding potential new customers, building existing customer relationships, and providing answers to potential customers' technical questions. Each of the tasks becomes increasingly important at different points in your company's life cycle. But, as your company grows, you'll need to add these specialized roles to support different types of growth and to allow your hunters time to focus on bringing in new deals and new revenue.

Depending on the stage in which your business is in, your sales team may be made up of some or all of the following roles:

HUNTER

This sales team member is your traditional sales person, charged with bringing in new business. In the beginning you staff up a team of Hunters to chase down every possible lead and turn it into revenue. Depending on how personalized your compensation plan is, a well-rewarded hunter can focus on increasing revenue, market penetration, profit, or improved product mix.

FARMER

This sales team member focuses on renewals and up selling current customers. A team of Farmers guarantees you aren't losing on-going revenue by tending to your current customers and reducing churn. A well-built Farmer incentive plan will recognize the daily consultative outreach and upselling activities that keep the Farmer harvesting.

PROSPECTOR

This sales team member finds new leads for hunters to track. Prospectors enable your Hunters to focus on their finishing deals, while they keep the pipeline full. Building an incentive plan that will drive the Prospector to find new leads for the Hunters to chase is critical to company growth.

SPECIALIST

This team member supports sales by presenting demos and developing proposals. The more complex the sale, the more important it is to have a Specialist there to help with any in-depth industry specific questions and challenges that may arise. Rewarding your specialists correctly ensures consistent support for each sales representative and motivates performance.

CAPTAIN

Every sales team needs a leader, and the best sales teams rely on a Captain to keep them focused on the deals that matter. Rewarding your sales managers for team success motivates them to deliver the best numbers possible.

04

CONSIDERATIONS FOR SALES COMPENSATION
DESIGN FOR EACH SALES ROLE



HUNTERS

REWARDING FOR NEW CUSTOMERS

Hunters have more impact on the ultimate outcome of a deal than other members of the sales team. The success of the deal hangs on the closer's abilities. That means they need to be rewarded for success and held accountable for not getting the job done.

THINGS TO CONSIDER IN CONSTRUCTING THE COMPENSATION PLAN

PAY MIX

You want to ensure there is sufficient "skin in the game" to incent the Hunter to hunt new business. Among Xactly customers, we typically see the pay mix for Hunters as 50/50 or 60/40. The percentage of pay at-risk also depends on other factors that make your product harder or easier to move. For example, a well-established brand is easier to sell than a lesser-known player. In this case, the pay mix of reps working with the well-known company may be less aggressive than the pay mix of those working with newer firms.

UPSIDE AND PLAN MECHANICS

There should be sufficient acceleration to get the attention of the Hunter and reward them for landing new customers. As mentioned previously, we often see top performers (i.e., Top 10%) earn three times more incentive pay than those performing at target.

PLAN COMPONENTS

These should be simple and focused on a business metric that gets the Hunters' attention. Always ensure components tie to your corporate goals and can be controlled by the Hunter.

FOR REFERENCE PURPOSES, HERE IS A SAMPLE PLAN FRAMEWORK OF A HUNTER ROLE FOR A SOFTWARE AS A SERVICE COMPANY:

On-Target Earnings	\$xxx,000	Pay Mix (Base/Variable)	55/45
Base Salary	\$xxx,000	Annual Target Incentive	\$xxx,000
Plan Components	Annual Contract Value (ACV)	Multi-year Contract Value	
Component Weight	75%	25%	
Plan Mechanic	Rate	Rate	
Cap	None	None	
Performance Period	Annual	Annual	
Payout Frequency	Monthly	Monthly	

HERE ARE SOME STEPS TO CONSIDER AS YOU BUILD OUT THIS ROLE AND DETERMINE COMPENSATION PLAN DETAILS

01

SEPARATE THE WOLVES FROM THE SHEEP

Turnover among Hunter reps can be high and bottom performers shouldn't stick around if they don't perform. You need reps that will make you look good while they are out adding customers. Questions to ask include the following:

- Are they hungry?
- Do you have a plan for letting them hit the ground running upon hire?
- Do you have the team to back them up?

02

ESTABLISH THE HUNTING GROUNDS

Each rep needs to know where they can hunt. Sometimes shared credits will be necessary for sales that start in one territory but finish in another. Things to consider include the following:

- Decide how you will segment the market and split territories:
named accounts, vertical markets, company size and/or postal codes
- Check industry databases to ensure there are enough opportunities in the territory
- Have a system for allocating/splitting credits as the need arises

03

CREATE THE STRETCH GOALS

Quotas should be based on an achievable goal for the Hunter's assigned territory or target accounts, but not everyone should hit quota – it needs to be a stretch. As previously mentioned, shoot for 60-70% of your team to achieve quota. Things to consider include the following:

- You will see spikes in revenue regardless of the performance period. Combine monthly and quarterly goals with the annual number to help guide reps and smooth out revenue.
- Set your plan components for whatever makes sense (e.g., units, revenue, new customers, etc.). If you track multiple components, be sure to make one primary.
- The sum of rep quotas should correlate with the sales manager's quota, though often it will add up to more than the manager's total goal for the period.

04

DANGLING THE CARROT

You have the goals set. Now it's time to decide how much of your company's revenue you want to give to the rep. You should also set up payouts that accelerate once the rep hits different performance levels (which is why step three is so important). Things to consider include the following:

- Compare payouts at target to last year's payments to see the impact of plan changes.
- If everyone is at target, how much will the company payout in total commissions? What about when everyone is above or below target?



GROWING YOUR EXISTING CUSTOMER BASE

Instead of focusing on the deal right now, Farmers need to make mid-term and long-term plans for their accounts. A team of Farmers can focus on keeping customers happy and finding new ways to do business with them. However, because their role in the decision-making process is diminished compared to the Hunter, Farmer plans should reflect their role in the selling process.

THINGS TO CONSIDER IN CONSTRUCTING THE COMPENSATION PLAN

PAY MIX AND UPSIDE

Farmers manage existing customers and thus their role is not as risky as a Hunter who must get new business to get paid. Given this, it is natural to have Farmers utilize a less aggressive pay mix as well as less upside. This plan design recognizes the lower risk nature of the Farmer position.

PLAN COMPONENTS AND WEIGHTS

You also want to reward farmers for their harvest, that is upsells or add-ons to orders. Yet if rewards tilt too much in this direction, you may be encouraging unnecessary upsells that could be a disservice to customers. Ensuring balance between the retention and the upsell ensure you reward their primary goal as well as recognize exceptional efforts.

PLAN MECHANIC

Most companies don't want to pay sales people an annuity, that is, a fixed sum of money every year. However, that is what can happen when Farmers receive a percentage of the revenue generated by customers who would automatically return regardless of the Farmer's efforts. It's often a worry that such an arrangement won't inspire reps to do more. If your barrier to renewing the customer is low, the percentage of a Farmer's earnings that is based on customer retention should be small or you might even consider putting in a threshold, a minimum level of performance expected, before you begin to pay the Farmer. However, if your customers aren't so loyal, you will want to make renewals a larger portion of the plan components and not include a threshold.

FOR REFERENCE PURPOSES, HERE IS A SAMPLE PLAN FRAMEWORK OF A FARMER ROLE FOR A SOFTWARE AS A SERVICE COMPANY:

On-Target Earnings	\$xx,000	Pay Mix (Base/Variable)	75/25
Base Salary	\$xx,000	Annual Target Incentive	\$xx,000
Plan Components	Annual Contract Value (ACV)	Renewal	
Component Weight	50% (includes value of upsell)	50%	
Plan Mechanic	Rate	% to Goal	
Cap	None	None	
Performance Period	Annual	Quarterly	
Payout Frequency	Quarterly	Quarterly	

HERE ARE SOME STEPS TO CONSIDER AS YOU BUILD OUT THIS ROLE AND DETERMINE COMPENSATION PLAN DETAILS

01

MAKE A LIST OF REPS THAT WILL BE ON THIS PLAN

Assemble the list of account managers and their assigned accounts. Make sure that you have the right skills represented in the job. Questions to consider include the following:

- Do they have the right personality for customer relationship management?
- What is your annual renewal rate? How much of that can the farmer influence?

02

ASSIGN TERRITORIES AND/OR NAMED ACCOUNTS

Make sure you know what line items in a transaction reflect the appropriate renewal and upsell the Farmer is responsible for. Things to consider include:

- Review your territory assignments and account lists to determine their equity
- Make sure that you know what revenue you want to count and what revenue to exclude

03

SET THE QUOTA FOR EACH ACCOUNT MANAGER

Quota should be based on the sum of the renewal revenue and up-selling revenue possible for assigned accounts. Quotas should be based on an achievable number, but it also needs to be a stretch. Things to consider:

- Quota should be based on things directly within the rep's control.
- What is the true opportunity for up-selling existing customers?
- What percent of your employees do you want to make quota? (We suggest 60-70%)
- What performance period should you use? Consider the rhythm of your business.

04

SET OPPORTUNITIES FOR EACH ACCOUNT MANAGER

Similar to Hunters, you want to understand what you will be paying your Farmers for, and set up payouts that accelerate once the rep hits different performance levels. Things to consider include:

- How much will the Farmer make if the renewal rate stays the same?
- How much MORE do you want the rep to earn if they beat their numbers?
- Calculate total payouts as a percent of total renewals at different renewal levels, make sure that the payments you will make are worth the revenue you will gain.



PROSPECTORS

REWARDING FOR QUALIFIED LEADS

In some businesses, the sales reps that search for qualified leads may be known as cold callers. In others, they are called Prospectors. Whatever it may be called at your company, this role creates the opportunity for the sale but is not the person closing the deal. If a person in this role is working efficiently, they are teeing up qualified leads for Hunters to close more easily. In addition, these roles are often entry-level positions that provide a “stepping stone” into other areas of the sales organization.

THINGS TO CONSIDER IN CONSTRUCTING THE COMPENSATION PLAN

OTE AND PAY MIX

Prospector roles will typically have a lower OTE than Hunter or Farmer roles due to the entry-level nature of their role. In addition, their pay mix should be less aggressive than a Hunter because they have less influence over the final result.

PLAN COMPONENTS

Consider utilizing a portion of their incentive pay on passing leads to Hunters and a portion on the amount for which final deals close. That way, you are rewarding for your ultimate goal and the prospector’s part in the process, which is to generate leads.

FOR REFERENCE PURPOSES, HERE IS A SAMPLE PLAN FRAMEWORK OF A PROSPECTOR ROLE FOR A SOFTWARE AS A SERVICE COMPANY:

On-Target Earnings	\$xx,000	Pay Mix (Base/Variable)	65/35
Base Salary	\$xx,000	Annual Target Incentive	\$xx,000
Plan Components	Qualified Leads	Leads Closed	
Component Weight	80%	20%	
Plan Mechanic	Rate	Rate	
Cap	None	None	
Performance Period	Monthly	Annual	
Payout Frequency	Monthly	Monthly	

HERE ARE SOME STEPS TO CONSIDER AS YOU BUILD OUT THIS ROLE AND DETERMINE COMPENSATION PLAN DETAILS

01

HIRE PEOPLE NOT AFRAID OF THE PHONE

If you don't already have this role, it might be time to think about having it. Finding new leads is tough work and it's a job that requires special skill and focus. Questions to consider include the following:

- Is your CRM set-up to handle passing leads to the appropriate reps and tracking them?
- Do your Prospectors develop their own lists or will marketing provide assistance?
- Will this job be a stepping-stone to another sales position?

02

DEFINE PROSPECTOR'S SPACE

Define their space by vertical, area, or sales resources supported. Your Prospector will spend time developing and qualifying leads. This will need to be a strong partnership so that the right leads are provided and so any leads passed are acted on in a timely fashion. Things to consider include the following:

- Check the relationships between prospectors and sales reps.
- When new sales reps are added to the company, they will need to be associated with the appropriate prospector.

03

SET EXPECTATIONS FOR DELIVERING QUALITY LEADS

Measurement of the prospector's success has two components: Leads and closed revenue. First is the number of total qualified leads the Prospector needs to deliver to sales each period. This should be a monthly number to ensure that the pipeline is always full. The second is the total revenue from closed deals from those delivered leads. This most likely will be an annual number, though it can be adjusted based on your sales cycle. This can have a different measurement period than the sales rep because of the different position responsibilities and span of control. Questions to consider include the following:

- Is the plan incenting the prospector to deliver the right types of leads?
- What is your lead qualification process?
- How many qualified leads are needed to become a closed opportunity?
- How long does it take from qualified lead to closed opportunity?

04

PAY FOR PERFORMANCE

Ensure the pay mix is appropriate for this role vis-à-vis other sales roles. It should be less aggressive than a Hunter because they have less influence over the final result. Questions to consider include the following:

- What has lead flow been in the past and do you have the right environment for a prospector to find new opportunities?
- Do you have an approach and system to qualify leads?
- How much of the closed revenue do you want to pay to the Prospector to help ensure that only qualified leads are passed?



SPECIALISTS

REWARDING FOR SPECIALIZED SKILLS

Members of this team work with a group of Hunters to present demos and draw up contract proposals. In this manner, Hunters can focus on closing as many deals as possible, while the best possible presenters are showing off what your product or service can do. The more complex the sale, the more important it is to have a Specialist to help with the questions that arise from prospects.

Because Specialists aren't the ones closing the deal, their pay mix should be less aggressive than that of the Hunters they depend on. However, in some cases they may be the final presenter of the product to the customer, you will want to consider a more aggressive pay mix than you have for your Farmers.

THINGS TO CONSIDER IN CONSTRUCTING THE COMPENSATION PLAN

- How technical is your product vs. your potential customer? Is it a difficult demo?
- Is the product or service you are selling to perspective customers new or established?
- Will the support person need to respond to competitive claims during demos?

Anything that increases the difficulty of the Specialist's role should increase the earning opportunity through a more aggressive pay mix as well as greater upside that can be achieved if he/she overachieves.

FOR REFERENCE PURPOSES, HERE IS A SAMPLE PLAN FRAMEWORK OF A SPECIALIST ROLE FOR A SOFTWARE AS A SERVICE COMPANY:

On-Target Earnings	\$xx,000	Pay Mix (Base/Variable)	70/30
Base Salary	\$xx,000	Annual Target Incentive	\$xx,000
Plan Components	Revenue	Demos Completed	
Component Weight	75%	25%	
Plan Mechanic	Rate	Rate	
Cap	None	None	
Performance Period	Annual	Monthly	
Payout Frequency	Monthly	Monthly	

HERE ARE SOME STEPS TO CONSIDER AS YOU BUILD OUT THIS ROLE AND DETERMINE COMPENSATION PLAN DETAILS

01

COMBINE KNOWLEDGE AND PRESENCE FOR THE POSITION

There is a big difference between a great product expert and a great sales specialist. Make sure that you have the right one in the position. Questions to consider include the following:

- Do they have the right technical skills?
- How are their presentation skills?
- Are they comfortable having some of their pay dependent on the actions of others?

02

ASSIGN COVERAGE RESPONSIBILITIES

Each sales rep deserves great support from their sales specialist, and each member of the sales specialist team deserves to be a member of a team that will help fulfill their goals. Remember that when new sales reps are added to the company, they will need to be associated with the appropriate sales specialist. Questions to consider include the following:

- What is the right ratio of Specialists to sales reps? Can your Specialist team members provide the support needed to all of the reps in their area?
- Are all of your sales teams similar in their capabilities? Do some of your specialists have access to better opportunities?

03

SET THE QUOTA

Typically, the sales specialist's quota should reflect the sum of the quotas of the reps they support. Questions to consider include the following:

- Are there different types of revenue credit that you should either count or exclude?
- If everyone on the sales team makes their individual quota, how will the Specialist do?
- How did this same territory or collection of reps perform last year?
- When new Specialists are added, some deals will need to be watched based on how you will manage credits for opportunities already in progress.

04

SET THE OPPORTUNITY

Ensure the pay mix is appropriate for this role vis-à-vis other sales roles. It should be less aggressive than a Hunter because they have less influence over the final result. Questions to consider include the following:

- What is considered excellent performance for a Specialist, and is this reflected in the available payouts for performance above plan?
- How much will the sales engineer earn if all of their assigned reps are at target?
- Should you add an additional measure to ensure that your Specialist supports all of their reps, instead of just focusing on a few of them? If so, consider a bonus measure for when all reps they support make quota.



THE CAPTAIN

REWARDING FOR TEAM PERFORMANCE

Like any good seafaring leader, the Captain is a sales manager that is responsible for their team's performance, and as such they should be rewarded for that performance. The Captain is typically measured on similar measures as the team they manage, with potential additional components that are relevant for a managerial role. This alignment ensures that the Captain is steering their ship appropriately and that all the reps they manage row in the right direction.

THINGS TO CONSIDER IN CONSTRUCTING THE COMPENSATION PLAN

PAY MIX AND UPSIDE

Part of being a Captain is accepting responsibility for a team. As a part of that responsibility, they need to focus on coaching reps versus closing business. Because of this, a manager's Pay Mix is typically less aggressive than the reps that report to them. Also, it is not unusual for top sales reps to earn more than their managers.

PLAN COMPONENTS

As previously mentioned, Captains should be well aligned with the components of those below. At many companies, reps may not have control over pricing and discounting policies. In these cases, often it makes sense to have the rep be measured on a revenue plan component while the Captain is measured on a margin or pricing component.

FOR REFERENCE PURPOSES, HERE IS A SAMPLE PLAN FRAMEWORK OF A CAPTAIN ROLE FOR A SOFTWARE AS A SERVICE COMPANY:

On-Target Earnings	\$xxx,000	Pay Mix (Base/Variable)	70/30
Base Salary	\$xxx,000	Annual Target Incentive	\$xxx,000
Plan Components	Annual Contract Value (ACV)	Multi-Year Contracts	
Component Weight	70%	30%	
Plan Mechanic	Rate	Rate	
Cap	None	None	
Performance Period	Annual	Annual	
Payout Frequency	Monthly	Monthly	

HERE ARE SOME STEPS TO CONSIDER AS YOU BUILD OUT THIS ROLE AND DETERMINE COMPENSATION PLAN DETAILS

01

FIND YOUR LEADERS

Your best sales rep is not necessarily the best leader. A top sales leader needs to be able to teach sales skills, keep an eye on all reps, and know where to focus. Questions to consider include the following:

- Have you promoted your best rep out of the field or have you truly found a sales leader?
- Do you have a training plan to develop other leaders as you grow?
- How many people can your leader supervise? Do you expect ride-alongs, direct supervision, daily conversation, and tracking? Be sure to adjust your management span of control accordingly.

02

SET REPORTING RESPONSIBILITIES

The typical plan defaults to credit the captain with the sum of all deals from their assigned sales reps. When new sales reps are added, they will automatically begin crediting to their management. Questions to consider include the following:

- Will your captain supervise one type of rep or a sales team of mixed roles (Account Executives, Account Managers, Lead Generation Reps, etc.)?
- How do you want to think about crediting the manager? Should any sources of revenue be excluded from managerial crediting?

03

SET THE QUOTA

The performance period for managers typically defaults to whatever their direct reports are given, including monthly and quarterly goals which might also be set to guide both reps and managers. Questions to consider include the following:

- Should managers have a quota that is over-assigned (i.e., the manager's quota amount is higher than the sum of the individual quotas of manager's team)?
- Are there open positions in the manager's team? How does the manager's quota reflect open positions, new reps and experience reps?
- If the entire team hits quota, what is the manager's performance toward their goals?

04

SET THE PAYOUT OPPORTUNITY

Many companies vary payout levels based on performance to reward top managers. Think about your sales cycle as you set the manager's performance period. Other plan components to consider include revenue-based bonuses, improved staffing, or expanded territories. You should review past performance when setting payout opportunities. Questions to consider include the following:

- How much will a manager earn if all of their reps are at quota?
- How much will top reps make as compared to their managers?

DOES YOUR SALES TEAM HAVE TOO MANY MANAGEMENT LAYERS?

How much sales management is enough and how much is too little? That is the delicate balance that sales organizations must determine. On one side is a company with too few management layers below them. These managers are overwhelmed and often have so many cats to herd that they aren't able to give their sales teams the training, coaching, and guidance needed to meet organizational goals. On the other end of the spectrum are sales managers with too many management layers below them. This scenario results in inefficiency and waste, as well as an unnecessary increase in the organization's compensation costs.

Ultimately, the goal of leadership should be to strike a balance - management should be lean enough to be efficient and cost-effective, but not so lean that engagement and productivity are affected. How many layers should your organization have, and at what point do you know you have too many managers? One formula doesn't work for every company, but, fortunately, your sales data should be able to tell you everything you need to know.

Follow these three steps to strike the right balance:

USE YOUR DATA TO ANSWER THIS QUESTION

Out of every dollar I earn in revenue, how much am I spending on base salary and variable pay? If the dollars earned don't outweigh the cost, the number of layers in your sales team may be contributing to the problem.

TAKE A CLOSE LOOK AT SHARED CREDITS

Xactly Insights data has shown that companies pay a lot of people per deal. In fact, a number of companies paid 30 different individuals after the close of a typical sales deal. How many layers are there between the VP of Sales and those tasked with closing, and are all those compensated contributing to the sale?

ANALYZE THE INFORMATION SO IT CAN BE CORRECTLY APPLIED

Don't make the common mistake of applying across-the-board decreases in sales staff without using data to guide you.

In the end, the best measure of whether your org chart works is profitability. Study your data to reveal how the numbers of layers in your organization are impacting profits, and use that knowledge to make adjustments.

05

TAKING THE NEXT STEP: COMMUNICATING THE PLANS

You've designed the best compensation plans. You've transformed unruly plan elements into elements that will succeed time and time again. You have engaged with data-driven modeling to analyze potential payouts, and senior leadership has approved your plans. Now it's time for your last step: Communicate the plans to sales team members and execute your strategy to perfection.

Creating a universally accepted incentive compensation plan is no easy feat, especially when it involves change. This is generally challenging for three reasons:

ONE

Sales reps often believe a redesign will somehow cause them to lose existing benefits.

TWO

Employees are naturally (and sometimes understandably) wary of what management might consider "changes for the better."

THREE

Management may lack the ability to clearly communicate new plan changes in a way where reps recognize what's in it for them – which is critical for adoption and buy-in.

Keeping your sales force updated is critical to the success of your compensation plan. Here's how to communicate the design and get everyone on board:

STEP ONE:

ASSEMBLE A SOLID COMMUNICATIONS TEAM

The plan should be communicated starting with sales management at the highest level (i.e., VP of Sales, Chief Sales Officer, or similar). Also, sales managers should be used to leverage their sales performance management expertise. Keep in mind, however, that not everyone at the management level is necessarily a good fit for your communications team. If a sales manager is uncomfortable communicating daily responsibilities, can you count on them to communicate plan changes to reps? Choose those who have shown the ability to step up and be vocal in the past.

STEP TWO:

BE AS TRANSPARENT AS POSSIBLE

With the right team assembled, it's time to open the lines of communication as much as possible. Make sure sales leaders provide the full scope of plan development and all it entails. Your staff needs to clearly understand the difference between the old plan and the new one—and most importantly, what's in it for them. Benefits are what will motivate them. Transparency isn't only critical for relaying the fine details of upcoming incentive plan changes; it's essential for getting everyone fully engaged in assessing current sales compensation plans to keep fine-tuning them for future success.

STEP THREE:

PREPARE FOR SUCCESS

Ensure sales managers are effectively communicating plans by asking these questions:

- Do your sales reps see what's in it for them?
- Are the sales objectives clear?
- Are the compensation plan details clear and easy to understand?
- Does everyone understand the importance of compensation management and commission tracking to the new plan?

Remember: Even the best incentive compensation management software can't be better than the process it's automating, so make sure you've designated key decision makers to oversee the rollout process and ensure everything adds up. New changes are never easy to implement, but effective communication will increase your chances for success.

Designing successful incentive compensation plans is a much an art as it is a science. You have to start with a base of data-driven insights and strategic design choices, utilizing benchmarking data and best practice thought leadership to ensure success from the get go. But for all the tactical and strategic planning that goes into setting yourself up for growth and progress, no plan will ever truly push the envelope from good to great until it layers on an understanding of the roles and systems present on the human end of the equation. Automation is the way forward when it comes to comp plan design, but automation doesn't mean inhuman – the system as it stands still rises and falls on the back of the workforce that engages with it, and without those thoughtful design elements which consider realistically the different roles and scenarios present in the workplace, the system won't ever achieve its total potential. Only with rock solid insights and strategic planning can you truly inspire performance with your compensation plans.

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