Sales Compensation Best Practices: Example Plans

2021

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What this report will cover

Agenda

Overview

Choosing a sales compensation plan is an important decision to make for any organization. The right plan will adequately motivate your sales people to help you achieve your overall business goals without putting your profitability at risk.

There is no one-size-fits-all compensation plan. Each business owner will need to consider myriad factors when deciding on how to compensate sales employees, including industry, company size, sales cycle length, and more.

Example 1

Territory Volume or Flat Growth

Whether starting from a baseline of revenue + growth or net new from zero, this plan calculates the growth within a designated territory or book of business over a period of time.

In practice

These are percentage based plans and normally have growth rates from 2%-10% depending on your product/service.
Example: New Business is 10% of gross revenue.
Renewals are 5% over LY bookings.

Risk and Reward

This plan works best when your sales territories are clearly defined. Also, when your territories are rich enough to support competitive wages.
This is the most common plan and focuses reps on single product/services with fixed pricing.

Example 2

Profit Margin

These plans compensate sales people based on how well the company is performing. This plan works best if you know that your sales people are able to support themselves through your lean periods, and when you have other incentives and job benefits to attract sales people, such as flex time.

In practice

Your business sells a product for $100,000, and there are $10,000 of associated expenses with that sale. Your company would recognize a $90,000 profit on that deal. Based on a 5% commission rate, a rep would earn $4,500 (five percent of the $90,000 profit).

Risk and Reward

This plan is great for growing sales teams, expanding and scaling your organization and to motivate reps to care about the bottom line and other business costs.
The key is sharing profitability with the reps to maintain transparency.

Example 3

Tiered Volume

These are designed to motivate sellers to continuously surpass certain levels of revenue sold. This type of commission structure is highly effective because it encourages reps to over-perform as their rewards increase the more they sell.

In practice

A rep earns 5% percent on each product sold up to $100,000 in total sales. Under this plan, that commission rate might increase to seven percent once the rep surpasses $100,000 in total sales. At $300,000, the commission rate may increase again to ten percent.

Risk and Reward

This type of compensation plan is meant to motivate reps to meet quota and ideally, continue closing deals to exceed their goals. Tiered commission structures are effective because the more they sell, the more reps benefit. Best for larger, established teams.

Example 4

Multipliers

This plan allows companies to build custom-made compensation strategies. The plan starts with a basic revenue commission structure, but then is multiplied by a percentage factor of quota achievement.

In practice

Let's say we have a 5% commission structure:
If your rep is 0-75% to Quota, the multiplying factor might be 80% resulting in a 4% payout.
76%-85% = 90% multiplier and a 4.5% payout.
85%-100% = 100% multiplier and a 5% payout.

Risk and Reward

It can be a tedious process to design and implement. Think of this plan as a combination of a revenue commission structure and a tiered commission structure.
This plans measures multiple performance factors and helps to better understand sales cycles.

Common Sales KPI's

01

Total Leads Generated

02

Total Pipeline

Sales Qualified Leads, Close Ratio, Conversions, Total Number of Opportunities

03

Churn Metrics/AVG spend/client

04

Meetings Booked

And attended

05

Deals Closed or Revenue Booked

Trends in Compensation

For the sake of this analysis, I did not evaluate the two other major compensation plans: straight commissions and a draw-against.
These are falling out of popularity.

One of the top reasons sales reps leave a job is for a higher-paying opportunity.
Different roles have different responsibilities.
The work that a business development rep does is different from that of an enterprise account executive or sales engineer.
Compensation sales commission structures should reflect that, which is the current trend.

To devise of the best plan to retain and attract talent, my recommendation is to answer the following questions:

1) What are our company’s goals and objectives?

2) What is a realistic estimate of performance based on our sales resource capacity?

3) How can we motivate each role successfully based on their different responsibilities?

4) Are we driving the right behaviors with our incentives?

Thank You!

Feel free to approach us
if you have any questions.