



The Impact of Pay Mix

GUIDE





OVERVIEW

Compensation should be used to drive a competitive advantage in sales organizations. The right compensation can help attract and retain top talent and it is the most critical factor in driving sales behaviors.

However, research has shown that quota attainment is decreasing year over year. According to CSO Insights, in 2012 quota attainment was at 63 percent. But by 2017, the number had dropped even more to 53 percent. What is causing this disturbing trend of lower quota attainment among sales teams?

To help answer this question, it is important to look into the compensation data across companies and industries to benchmark what the optimal pay mix should be in order to drive the right behaviors. This brief explores pay mix across companies and industries, derived from more than 13 years of proprietary Xactly pay and performance data. It provides key market examples to benchmark pay mix in order to attract the best and brightest sales talent.

PAY PHILOSOPHY AND PAY MIX

Every organization has a defined pay philosophy to attract, retain and motivate top talent to perform at an optimal level. This philosophy is based on many factors (company, industry, sales cycles, etc) and is a combination of base pay, variable pay, and perhaps non-monetary variables like company equity. Pay mix is the ratio of base salary to target incentives that make up the On-Target Earnings (OTE) and is an important part of a pay philosophy.

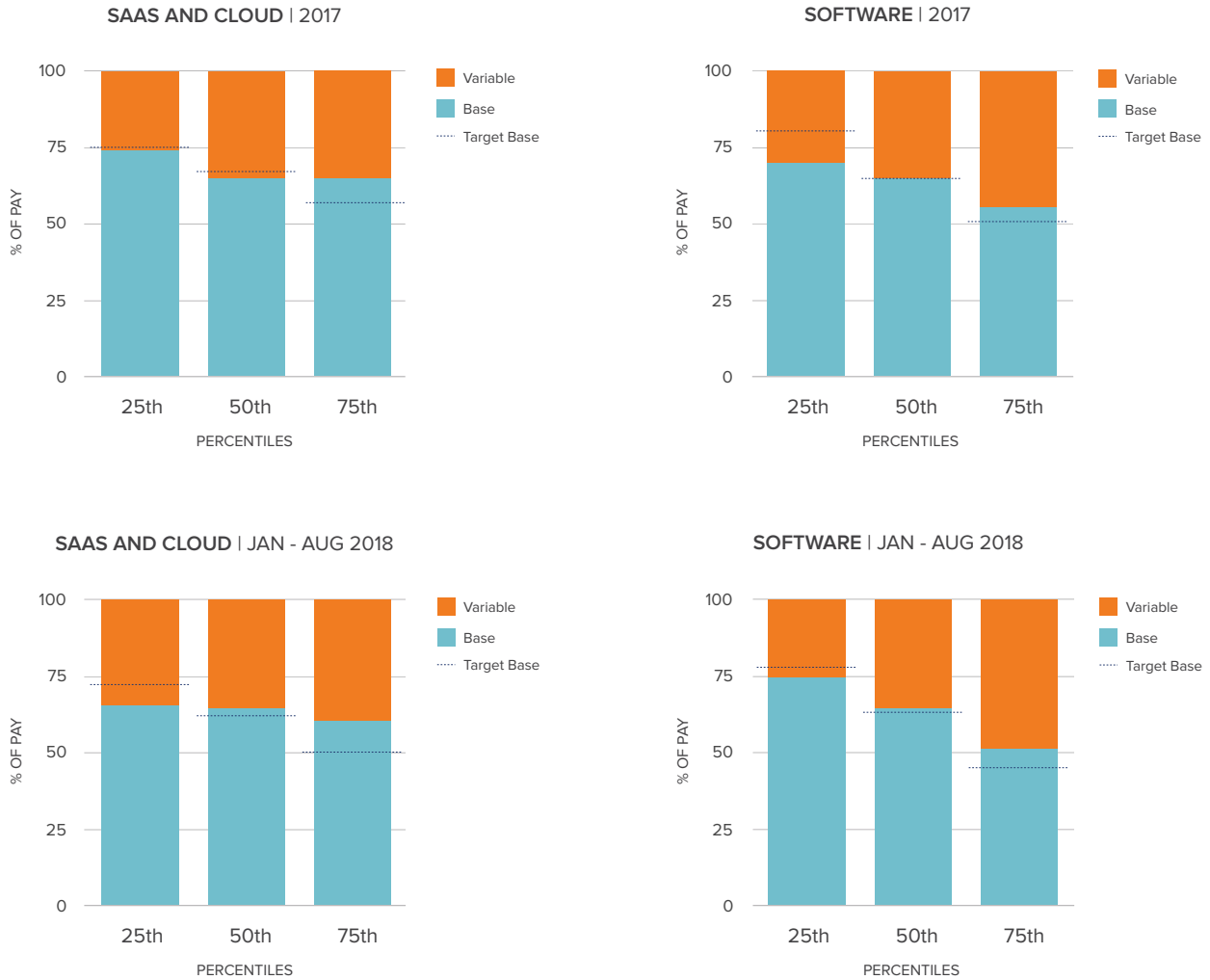
Companies may focus more on incentive-based compensation with a lower base, or focus on a higher base with lower variable pay. However, without the access to benchmark data across peers in the same industry, companies are at a disadvantage to determine the optimal pay mix. Sales and finance leaders will benefit greatly by having access to benchmark data to help design the optimal comp plans to attract and retain top talent while also driving sales behaviors to attain quota. In fact, Xactly customers who used the flagship Incent ICM solution along with Xactly Insights Benchmarking found a 10 percent higher median and average quota attainment, year over year, than non-Insights customers.

PAY MIX IN PLAY: REAL LIFE EXAMPLES

Xactly's Benchmarking data was used to understand the variances in pay mix between SaaS/Cloud companies and software. The information referenced below includes data from all North American companies in the Xactly Insights database (public and private). We've analyzed both the target pay mix and the actual pay mix for inside sales representatives, account executives, and sales managers.



Scenario #1: Inside Sales Representatives



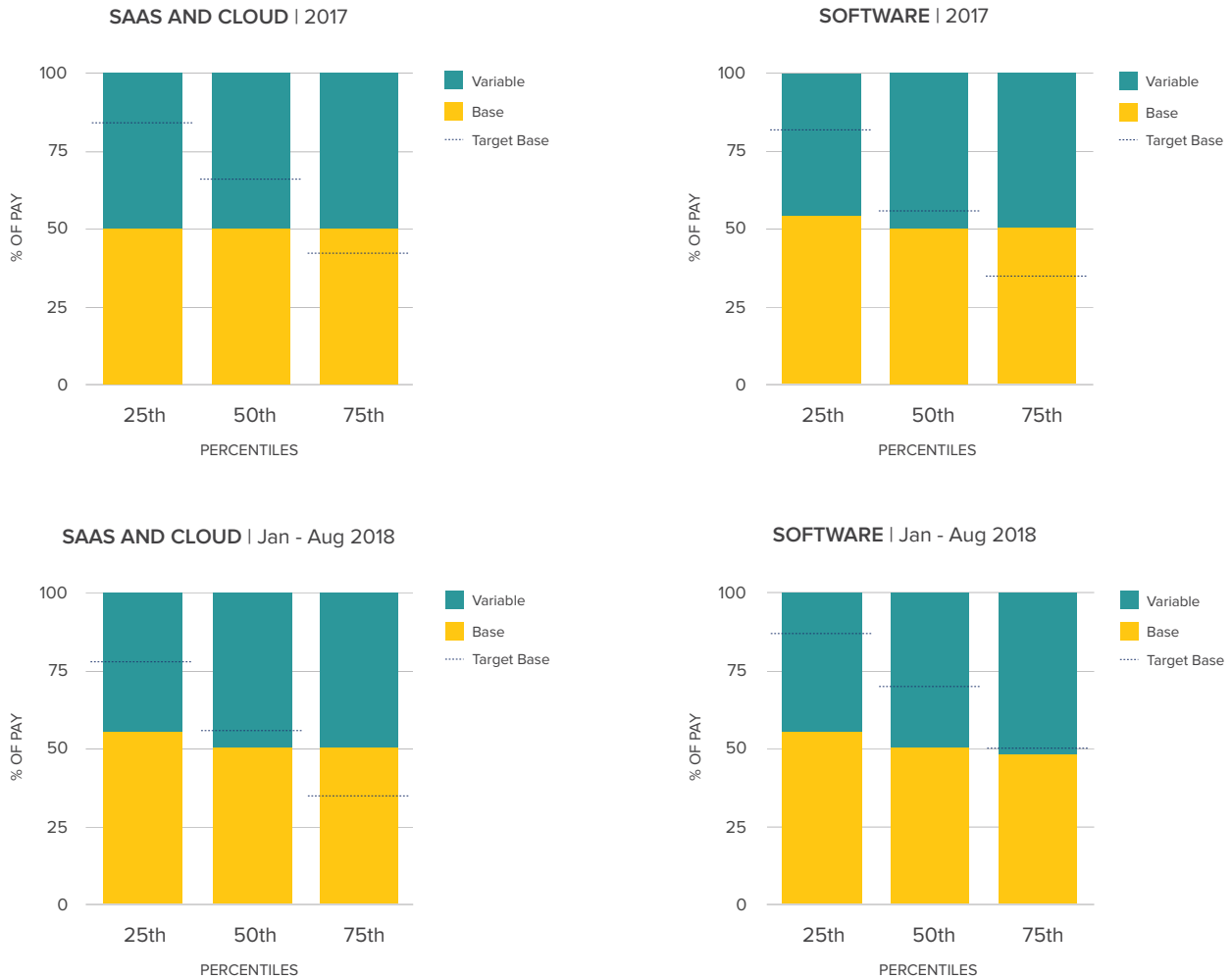
Xactly defines an inside sales rep as a: “quota carrying sales rep responsible for selling to customers with minimal or no travel. This role is focused on answering inbound sales calls and making outbound sales calls to prospects.”

Across many industries, inside sales reps are structured and compensated more in line with target pay. The nature of this position yields a higher base pay than in more senior roles, such as account executives or managers. However, a significant portion of inside sales reps still has more aggressive mixes.

For software and SaaS industries, the target pay mix is relatively the same at 64/36 and 63/37 respectively. In 2017, the difference in actuals is stark, with SaaS/Cloud having a lower base pay of 33 percent and much higher variable pay at 67 percent. A year later, the numbers seem to have scaled up more at 41/59 for an average target pay mix.



Scenario #2: Account Executives



Xactly defines an account executive as a “direct primary quota carrying representative in your organization. This role is responsible for acquiring new customers as well as managing existing customer relationships. The role is typically field based and travels to customers.”

For software and SaaS industries, the closest pay structure similarities lie in the target pay mix. The majority of reps have close to a 50/50 split (similar to 2017) on target earnings.

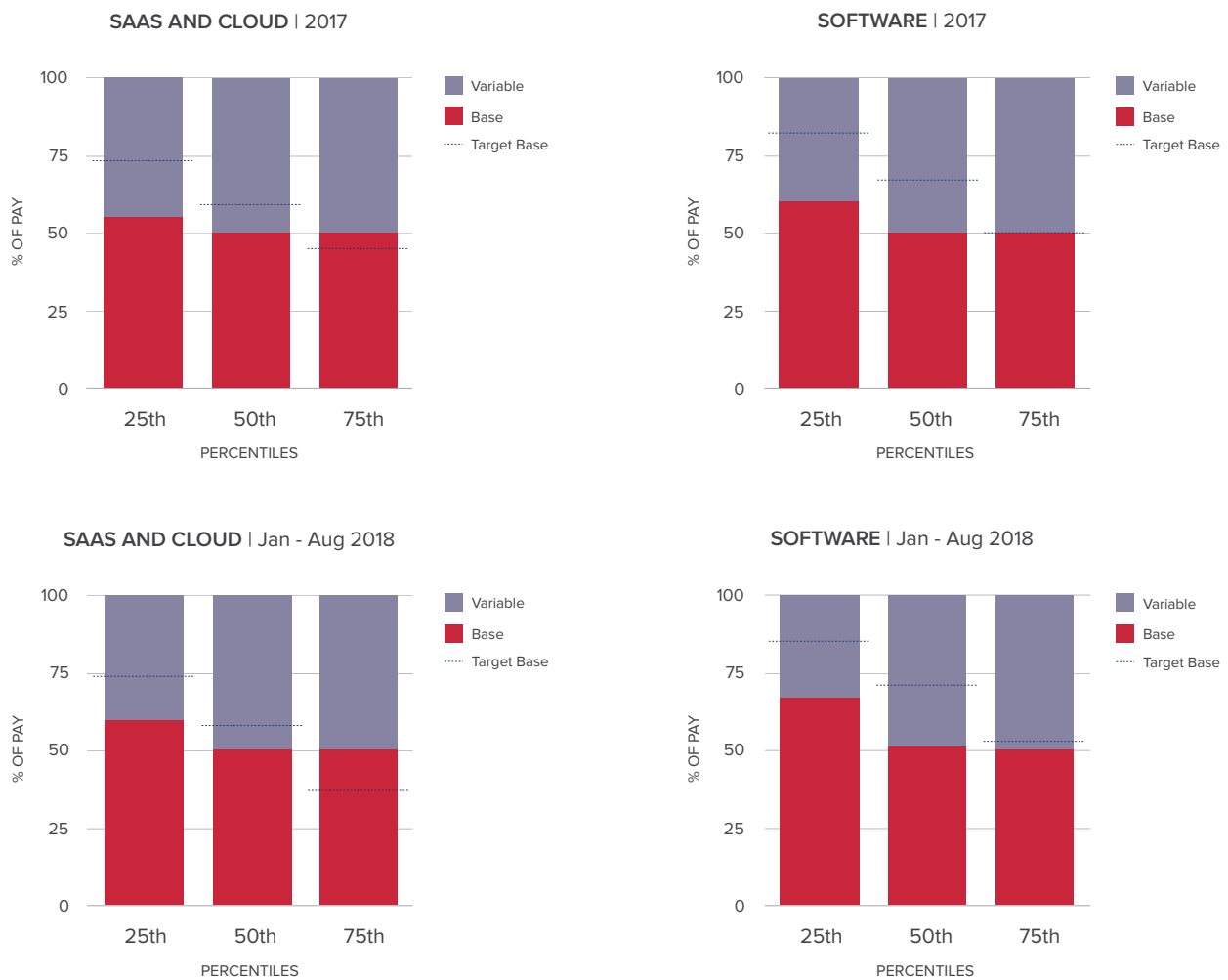
When it comes to actuals, SaaS reps generally end up getting closer to, or exceeding, their goal mixes. There could be a lot of factors why SaaS reps are earning more variable pay, including better performance—being in a “boom” business versus a sunseting industry, for example. Or, new, exciting technologies could lend itself better to a sale.



Year over Year, software reps have a shrinking percentage of their variable actual pay variable (in all quartiles), whereas SaaS reps have shifted positively (to a larger percentage of pay attributable to variable compensation) since 2017.

Tenure definitely plays a role in account executives and inside sales rep performance and compensation. According to [Xactly Insights data](#), sales reps reach a “sweet spot” of optimal performance between years three to five with an organization. Tenured reps have a lower base but often higher variable pay. This proves a comfort level with less stability, but the ability to deliver time and again. Based on this data, pay mix is a motivating factor in driving sales behaviors in order to keep reps motivated before they hit that three to five year performance cliff.

Scenario #3: Sales Managers





Now, let's consider sales managers. A sales manager is defined as a first-line manager responsible for managing the day-to-day activities and performance of a field sales team.

There are similarities with account executives in their respective industries. Actual pay is higher for SaaS and Cloud as opposed to software. Target pay is closer and actual pay has a greater range between the bottom and top quartiles.

However, tenure doesn't play as large of a role. Sales managers who have been in the role for 3-5 years, don't have the same positive correlation in pay as account executives and inside sales reps do. Whereas a tenured account executive would have a lower base but higher variable, a sales manager will often have a higher base and a lower variable. One theory could be that sales management is taking a supportive role to help their reps close deals, rather than leveraging their own selling prowess.

Former top reps who become sales managers might be at a disadvantage if they are new to the role. Xactly data has found these individuals may not always be the best managers. Sales reps that continually meet quota have a 200 percent higher chance of promotion, and can potentially increase team performance by 20 percent. However, for the top half of reps selling the entire catalog of services, 40 percent have the chance of being promoted to manager, but increase overall team performance by 40 percent.

THE IMPACT OF DATA-DRIVEN DECISIONS

A crucial benefit to sales leadership is the ability to test a pay hypothesis. By leveraging data-driven solutions such as Xactly Benchmarking, sales and finance leaders are able to easily view up-to-date compensation plan results on a report and immediately test assumptions for different pay mixes. Testing against existing pay and performance data on a routine basis helps sales leaders stay current with the latest compensation trends and be in a position to attract and retain top performing reps in their industry.

IN CONCLUSION

Designing an optimal pay mix is one of the most motivating factors in any sales organization. Having access to industry benchmark data will help unleash the human potential of sales reps across organizations to achieve incredible outcomes.

Sources:

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<https://www.agencybloc.com/resources/manage-your-agency/commissions-processing/4-reasons-you-shouldnt-use-excel-spreadsheets-to-process-commissions/>

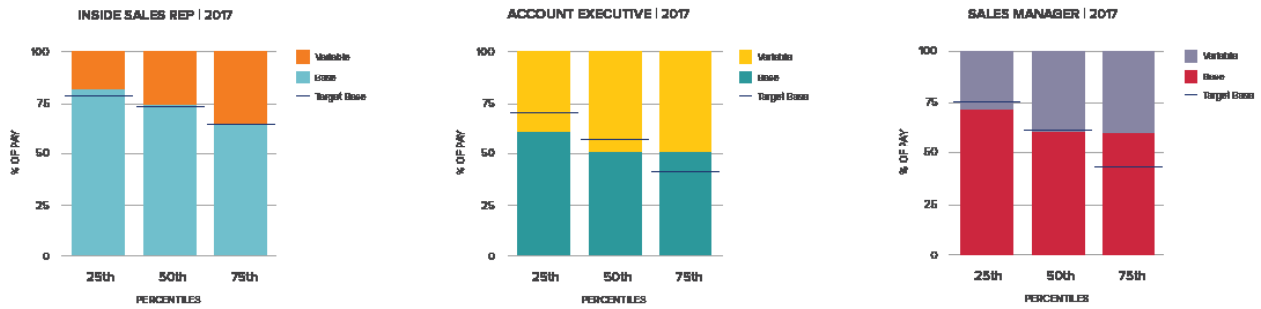
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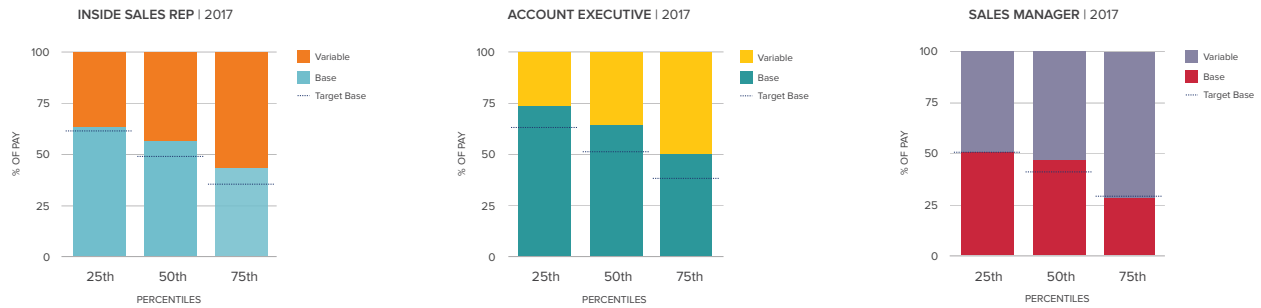
PAY MIXES IN OTHER INDUSTRIES

The pay mix information below reflects Xactly Insights Data, pulled from January-December, 2017. It is important to note all industries are different, and have varying factors that affect their data.

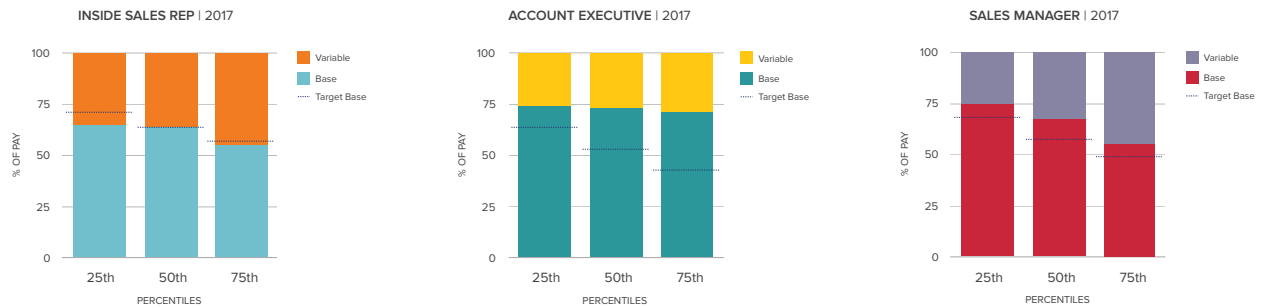
High Tech Manufacturing



Financial Services



Life Sciences/Pharma





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Xactly delivers a scalable, cloud-based enterprise platform for planning and incenting sales organizations, including sales quota and territory planning, incentive compensation management, and predictive analytics. Using this powerful sales performance management (SPM) portfolio, customers mitigate risk, accelerate sales performance, and increase business agility.

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