



The 2021 Guide to Successfully Managing Sales Compensation



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Introduction

Revenue organizations are no strangers to incentive compensation, and every company leverages it on some level to motivate sales reps and drive performance. But in order to be successful, enterprises must continuously optimize their incentive strategies and make swift changes to stay on target for revenue and growth goals.

Today's quickly-shifting selling environments are making it increasingly difficult to design, implement, and manage sales compensation with agility—especially for companies using manual sales compensation management methods.

The stakes to succeed are high.

In the U.S. alone, companies spend more than \$800 billion to manage their sales forces, with \$200 billion devoted solely to compensation each year, according to Harvard Business School.²

So it's no surprise that more than two-thirds (77 percent) of companies say they've accelerated their digital transformation over the past two years.³ In order to meet rapidly increasing revenue goals, you need reps to sell at maximum performance. That requires a top-notch incentive program.

But before you can even begin to think about automating and adopting incentive technology, you have to nail down the fundamentals of compensation management, starting with your planning processes and data quality.

In this guide, we'll cover everything you need to know about designing incentive plans, using digital technology to streamline compensation management, and using the ROI of your sales incentives.

PREPARING FOR SALES COMPENSATION PLANNING

Incentives play a critical role in sales behaviors and overall rep performance. Traditionally, planning has occurred once per year with a "set it and forget it" mindset. But today's most successful enterprises have realized that this approach is outdated and hinders their ability to make agile, informed decisions.

65%

of companies have the same or higher quotas since the start of the pandemic, and 38 percent have higher overall revenue targets.¹

Source: Xactly 2021 State of Global Sales Performance Survey

Rather than annual planning, leading organizations are holding their usual planning periods, but they are also continuously analyzing compensation plans throughout the year and making real-time adjustments based on internal performance and external market and industry factors.

Prior to planning, there are two foundational elements you need to ensure you are well-prepared for compensation plan design and implementation. First, you need to involve the right people early on to gather the right information, and you also must align departmental priorities with overarching goals.

BUILDING A TEAM OF KEY STAKEHOLDERS

The impact of your company's compensation plan reaches far beyond the sales team. Each department has different priorities it is focused on, but you should all be working towards the same overarching goals. Including key stakeholders helps maintain cross-departmental alignment throughout the sales compensation planning process.

Building Your Compensation Planning Team

| | |
|---|--|
|  Sales Leadership | Sales has the most insight into your sales force. They'll bring historical performance, capacity, quota, and territory information to the table. |
|  Finance | Finance can provide key insights into projected revenue and expenses to help balance incentive costs and maximize the ROI of your incentives. |
|  Operations | Your Sales and Revenue Operations teams provide key knowledge around revenue, sales cycles, pipeline, and enablement to ensure incentives are revenue-driven. |
|  Compensation | Compensation admins will help determine the feasibility of your compensation strategy and ensure it is clear, simple, and effective. |
|  Marketing | Marketing is playing an increasingly larger role in developing early-stage sales pipeline for organizations. Bringing them in will help align them so they focus on generating leads that will support sales' goals. |
|  Product | Including the product team in compensation planning will ensure incentives are aligned with goals related to product development. |
|  Sales Reps | Sales reps and managers will help build plan buy-in, ensure incentives are easy to understand, and provide clear direction. |

GET THE ENTIRE ORGANIZATION IN ALIGNMENT

Bringing together the right planning team is only part of the compensation formula. Alignment is equally, if not more, important. You need to lay down all of the different departmental initiatives and make sure you are aligned on priorities and how they feed into overarching goals. Because, when everyone is on the same page, you ultimately perform better, right? Exactly.



10%

Source: Minsilo

Misaligned companies waste roughly 10 percent of business spending.⁴

Alignment on goals and trusted data is a surefire way to reduce resource waste and improve performance, not only for compensation management but the entire company as well.

ENTERPRISES WITH ALIGNED DEPARTMENTS



40%

Achieve 40% higher win rates⁵



2.3x

Are 2.3 times more likely to regularly exceed revenue goals⁴



50%

Grow revenue 50% faster⁴



72%

Are 72% more profitable⁴

Sources: Minsilo; ZoomInfo

With consolidated data, you center your entire organization around the same information and insights, allowing you to focus incentives on driving sales behaviors that empower you to hit targets strategically and efficiently.

Data: The Most Essential Compensation Planning Tool

Data is the single most important factor to design and manage sales compensation effectively, and it is critical for planning and optimizing incentives. The strongest plans are data-driven, which means you need to gather as much data as possible.

COMPENSATION HISTORY

Start by looking at your past sales compensation plans. You'll need to examine the incentive structures used in the past and identify which were most and least effective at achieving goals.

>>> ASK YOURSELF: What is our typical incentive payout versus revenue earned?

PAST SALES PERFORMANCE

Understanding historical sales performance will impact how aggressively you set quotas for reps and determine the most effective incentives for different roles.

>>> ASK YOURSELF: How many reps, on average, hit, exceed, or miss quota?

CUSTOMER INSIGHTS VS. GROWTH GOALS

Examine your average amount per closed sales opportunity and the costs to acquire it. This will inform your hiring plans, territory design, and how to structure your sales team incentives. Based on that information, you can determine if you should target the same deals or expand the companies you're currently pursuing.

>>> ASK YOURSELF: What does our average deal look like? If we continue closing only these deals, is it the best way to achieve our goals?

CAPACITY AND RAMP TIMES

The tenure of your sales team and the number of reps on the sales floor will help you set effective quotas. Knowing how many fully-ramped salespeople you have on your team and the amount of time it takes to get a new hire to full productivity will be vital to determine the right incentives for different roles.

>>> ASK YOURSELF: How long does it take for a new rep to fully ramp, and how can we reasonably expect them to perform during their training period?

EXTERNAL INDUSTRY AND MARKET DATA

Your internal data provides a clear picture of your company. Adding third-party data shows how others in your industry are paying their sales teams. This will help you develop competitive compensation plans, which are crucial to attract and retain top talent.

>>> ASK YOURSELF: How do our incentives compare to our industry and competition?

Building Strategic Sales Compensation Plans

From the start of planning, it's important to consider the different roles on your sales team and align incentives to the unique tasks and processes each is responsible for. Consider a sales development rep (SDR) and a sales specialist, or sales engineer. Each role plays a vital part in the sales cycle, but the actions they have control over are different.

You wouldn't measure an SDR on giving demos, nor would you base a sales engineer's performance on the number of prospecting calls they make. Likewise, sales managers spend more time on administrative and coaching tasks, unlike an account executive with a larger focus on selling. Throughout your sales compensation planning, it's important to keep in mind that no two roles on your team have the same responsibilities, and their incentives should reflect that.

DETERMINING AND SETTING PAY MIX

Sales compensation generally consists of a ratio of base and variable incentives, known as pay mix. This will vary for different roles, but it typically involves a guaranteed base salary with additional potential earnings through commissions.

THERE ARE SEVERAL FACTORS THAT GO INTO SETTING THE RIGHT PAY MIX, INCLUDING THE:

- ▶ Type of sales role
- ▶ Average transaction volume
- ▶ Average length of the sales cycle
- ▶ Target account and customer types

The Value of Benchmarking

Remember that external third-party data we talked about compiling earlier in the guide? This is where it comes in extremely handy. Benchmarking, or comparing your incentive structures against industry data, is the most effective way to determine the best pay mix for your sales team.

Insights into how other organizations are designing their compensation give you a baseline to ensure your pay is competitive, which is critical to attract and retain top performers. In fact, HubSpot reports that one of the top reasons sales reps leave a role is for a higher-paying opportunity, and 43 percent of workers would accept a new job for a 10 percent increase in pay.⁷

Using a [sales benchmarking tool](#) can make this process much easier and provide a larger dataset to benchmark against your own data.

PAY MIX FOR DIFFERENT ROLES

At the most basic level, you may consider the following pay mix examples for different roles, based on their influence in the sales cycle and selling responsibilities. Below are a few very simple examples to demonstrate how pay mix works.

| The Basics: How Pay Mix Works | | |
|--------------------------------------|---|---|
| PAY MIX (BASE/VARIABLE) | HOW DOES IT WORK? | GOOD OR BAD? |
| 0/100 | All variable income, no base pay. | Highly effective, but can create high-stress environments, and weekly payouts may be required |
| 50/50 | An even split of 50 percent base incentives and 50 percent variable commissions | A good starting point and offers a level of income security |
| 80/20 | 80 percent guaranteed compensation and 20 percent variable incentives. | This structure works well for roles with little to no influence on the sales cycle |

Generally speaking, every sales role will have some ratio of variable pay in their compensation plan. Jobs with the most influence on sales purchasing decisions should have a more aggressive pay mix with a higher proportion of variable pay.

After examining Xactly customer and industry data, we've determined good starting points for setting pay mix for common roles on your team.



Pay Mix Structures by Role

| ROLE | RESPONSIBILITIES | IDEAL PAY MIX (BASE/VARIABLE) |
|-----------------------------------|--|-------------------------------|
| Account Executive | Most influence on sales cycles, nurturing prospects, closing deals | 50/50 or 60/40 |
| Sales Development Rep (SDR) | Prospecting, bringing in new accounts, and qualifying leads | 70/30 |
| Sales Specialist (Sales Engineer) | Building and presenting in-depth, personalized demos | 65/35 |
| Customer Success Rep | Managing customer accounts, cross-selling and upselling | 65/35 |
| Sales Manager | Managing entire sales team, coaching, reporting | 75/25 or 80/20 |

PLAN ELIGIBILITY

Plan eligibility answers a fundamental question: Who should be on a variable compensation plan? A good rule of thumb to decide if someone should be eligible is if their role:

- ▶ Has significant contact with prospects or customers
- ▶ Influences customers to purchase at any point in the customer lifecycle
- ▶ Has a high level of involvement or ownership in the sales process
- ▶ Is defined by clear and quantifiable sales objectives

Nearly every person on your sales team will be eligible for your sales compensation plan and work towards earning some sort of variable pay. For those that play a role in sales, but don't necessarily play a direct role in the sales cycle (e.g., marketing, product development, engineering, etc.), you may consider an alternative incentive structure.

We'll touch more on incentives for non-sales employees later on in this guide. For now, let's focus on the bulk of your sales organization who will be eligible and earning variable pay under your compensation plan.

PLAN COMPONENTS AND WEIGHTS

Plan components define how you will be measuring each sales role. They should be easy to understand and objective in nature to drive proper sales behaviors. Each plan component should then be weighted to help each salesperson prioritize the actions and deals they need to focus on in order to succeed.



4 KEY COMPENSATION COMPONENT FUNDAMENTALS



Aligned to job roles and responsibilities



Forecasted and tracked with relative ease



Focused on a particular output or result



Clear and precise in the actions that reps need to take

When it comes to components and weights, simplicity is key. Too many goals will take the focus away from objectives that are important to the company’s bottom line. To effectively drive sales performance, your compensation plans must be easy to understand, clearly articulate the actions reps should take, and what they can do to maximize their earnings.

TYPES OF COMMISSION STRUCTURES

The most common variable pay structure is a sales commission. They provide the flexibility to shape your incentives in a variety of ways that best fit with your overall business and sales team structures.

› **Plans measuring reps on three components are the most effective at driving sales performance.⁶**

Source: Xactly Benchmarking

There are several ways to structure your sales commissions, depending on the complexity of your product and service offerings, industry, and the size and structure of your sales team. To help, here’s a breakdown of the most commonly used sales commission structures and when you should use them.

| COMMISSION STRUCTURE | WHAT IS IT? | WHEN TO USE IT |
|----------------------|--|---|
| Straight Commission | Salespeople receive no base pay, and all of their earnings are variable commissions. | <ul style="list-style-type: none"> ▶ Teams with shorter sales cycles ▶ Contract, temporary sales positions |
| Flat Rate/Revenue | Reps are paid a percentage of revenue from each individual sale. | <ul style="list-style-type: none"> ▶ Smaller sales teams ▶ Less complex product/service offerings ▶ When the focus is on one product/service |
| Gross Margin | Sales reps earn a percentage of gross revenue for each individual sale. | <ul style="list-style-type: none"> ▶ Growing and expanding sales teams ▶ When there is focus on growing the bottom line |



| COMMISSION STRUCTURE | WHAT IS IT? | WHEN TO USE IT |
|-----------------------|--|---|
| Tiered Commission | Reps earn higher commission rates as they surpass levels of revenue sold. | <ul style="list-style-type: none"> ▶ For established sales teams ▶ To promote over-performance |
| Multiplier Commission | Salespeople earn a flat commission and are paid a percentage of their total commission based on their progress to quota. | <ul style="list-style-type: none"> ▶ To use multiple measures in one compensation plan ▶ To help reps better prioritize deals |

DRAW AGAINST COMMISSION

Another simple commission structure is a draw against commission. The draw is a predetermined amount that reps are paid, almost like a cash advance on a rep’s paycheck. There are two types of draws commonly used—recoverable and non-recoverable.

In a recoverable structure, reps are paid a guaranteed amount and must repay it at a later date, usually as a deduction from the next paycheck. For a non-recoverable draw, the payment operates more like a stipend. Reps receive the draw in their paychecks, but they are not required to pay it back.

Recoverable vs. Non-recoverable Draw

Imagine reps are guaranteed a \$1,000 draw regardless of the amount they sell. In that first month’s paycheck, they would receive \$1,000. In month two, let’s say they earned \$5,000 in commission.

FOR A RECOVERABLE DRAW

That salesperson’s next paycheck would be adjusted to \$4,000 to repay the original \$1,000 draw.

FOR A NON-RECOVERABLE DRAW

The rep would be paid the full \$5,000 and not repay the past draw.

When to use a Draw Against Commission

Draw against commission has two common uses: for newly hired reps and during times of uncertainty. Recoverable draws are a good option to provide a steady income for salespeople as they go through training during their ramp period. In the event of economic uncertainty or external market factors, a non-recoverable draw can provide a level of income stability for the entire sales team.

ACCELERATORS

Accelerators define how much salespeople will earn when they exceed their assigned goals and can be a useful tool to help motivate and reward overperformance. For example, if a rep achieves 115 percent of their assigned quota, they will earn an accelerated, or higher, commission rate on that 15 percent of sales over quota.

When determining who should be eligible for accelerators and how much they could potentially earn, ask yourself the following questions:

- ▶ What do we consider “top performance” to look like for each plan component?
- ▶ How much do we want to reward a top performer compared to those who reach their target, but don’t overachieve?
- ▶ Do we want to institute a cap or decelerate payout at a certain level of performance?

Who benefits most from accelerators?

Roles with the most influence on purchasing decisions, like account executives and field sales reps, should have a higher accelerator opportunity to encourage them to close more deals. When thinking about manager roles, there are usually fewer accelerators in their compensation plans since they are responsible for a smaller portion of closing deals.

Modeling different payout scenarios is the best way to ensure your incentives are reasonable, provide the highest possible ROI, and consistent with your financial goals and projected revenue. (Hint: using an [intelligent sales planning solution](#) can make this much easier!)

SHOULD YOU CAP SALES COMMISSIONS?

In short, no. Commission caps are generally demotivating for reps, and thus, should be used sparingly. What motivation is there to overperform if you won’t earn any more money than if you simply just met your quota?

INSTEAD, USE A DECELERATOR.

When using a decelerator, commission rates gradually begin to decrease once reps hit a certain threshold of overperformance. In most cases, decelerators can be used in place of a cap to reward overachievement, while keeping overall incentive costs under control.

ADDITIONAL SHORT-TERM INCENTIVES: SALES CONTESTS AND SPIFS

Aside from your long-term compensation plan, there are additional short-term incentives you can use to boost sales performance and drive revenue. These are usually temporary incentives that focus on certain deal types or specific product and service promotions during a set period of time.

Sales contests are a common incentive used to promote both team and individual performance. The most well-known sales contest is president’s club, where top performers are rewarded with an all-expenses-paid trip on the company’s dime.

Sales Performance Incentive Funds (SPIFs) are another popular short-term incentive.

These are usually used to temporarily refocus sales’ priority around a specific initiative, such as:

- ▶ A product or service launch
- ▶ Accelerating pipeline movement
- ▶ Taking advantage of emerging marketing opportunities

SPIFs often operate like a bonus. For example, with a product launch, you may offer \$5,000 to reps for every new deal they close for that specific product over the course of the next two months. Regardless of the short-term incentive you choose to use, there are four considerations to keep in mind.

Sales Contest and SPIF Best Practices

Use Them Sparingly

Your sales team shouldn't expect or be able to predict when contests and SPIFs are going to happen.

Choose the Right Time Frame

SPIFs and contests should be a part of your short-term strategy, and not as an always-on incentive.

Keep it Simple

Like your overall compensation strategy, simplicity is key.

Analyze the Outcome

Don't forget to review incentive effectiveness so you can improve the performance of your next contest or SPIF.

It's important to note that sales contests and SPIFs should not act as a band-aid for poor compensation planning or to boost sluggish performance. While they are useful motivation tools, they are meant to support and enhance your overall compensation strategy. Poor-performing compensation strategies should be analyzed further to determine if larger plan changes need to be made.

INCENTIVE COMPENSATION FOR NON-SALES ROLES

Compensation planning isn't just about motivating sales reps. It's a useful tool you can use to drive performance across your entire business, including non-customer-facing roles. Because these roles aren't directly involved with closing deals, a commission structure doesn't necessarily work as a compensation strategy. But there are other incentives you can use to motivate these roles and recognize their performance.

Management by Objectives (MBOs)

Management by Objectives, or MBO, is a performance-based incentive structure, where an employee earns a set bonus amount for completing individual goals in a specified time period, usually between six and 12 months. These objectives are created based on the employee's core responsibilities that stem directly from higher-level targets.

MBOs can also be used for different sales roles, but they are highly effective motivation tools for employees outside your sales team. Like your sales commission structures, MBOs should be aligned with an individual's role, tied directly to overarching company goals, and provide clear, concise direction.

Non-cash Incentives

Financial rewards are the most common incentives, but you can supplement your core compensation plan with non-cash rewards. Most often, non-financial incentives are great for spontaneous "pat on the back" rewards and can be used for both sales and non-sales employees.



This incentive structure allows your team to be a little more creative and personalized in how you reward employees and can include anything from sporting event tickets to gift cards and travel vouchers.

Sales Compensation Plan Dos and Don'ts

- ✓ **DO:** Base the majority of variable pay on individual achievement and things each salesperson can control.
- ✗ **DON'T:** Set goals that reps have little to no impact on, such as overall team performance.
- ✓ **DO:** Keep plan components simple and focused on actions that support overarching goals.
- ✗ **DON'T:** Overload compensation plans with several complex, confusing measures.
- ✓ **DO:** Use accelerators and tiered commissions to encourage reps to overperform and exceed their quotas.
- ✗ **DON'T:** Place a cap on commissions or other earnings that might discourage overachievement.
- ✓ **DO:** Use contests and SPIFs to boost sales performance over a short period of time.
- ✗ **DON'T:** Rely on contest and SPIFs to make up for poorly-designed, ineffective compensation plans.
- ✓ **DO:** Consider using MBOs to motivate and reward roles outside your sales team.

Compensation Plan Rollout and Communication

Once you've nailed down the different parts of your compensation plan, you're ready to begin plan rollout. One of the most important factors in a successful incentive compensation strategy is sales team buy-in; therefore, clear, transparent communication is essential. A good starting point for plan rollout is a three-step communication process.

3 Steps to Communicate and Rollout Plans

1. At the Annual Sales Kickoff Meeting

The initial plan introduction should be high-level, explain new plan elements, and how the plan will impact the entire salesforce.

2. Sales Managers to Teams

This presentation should focus on how each individual team will benefit from the new compensation plan.

3. One-on-One Explanation

This meeting allows reps and managers to discuss individual goals, career paths, and how reps can succeed under the new plan.

Throughout the entire rollout process, it's important to remember that as humans, we are often resistant to change. All communications of the new compensation plan should focus on how reps will benefit and why any changes are positive. It can also be helpful to include different calculation tools or examples to demonstrate how salespeople can ultimately earn the most money.

Again, transparency is essential. After the initial rollout, you should continue to provide regular updates on any changes made to the plan to keep reps informed, engaged, and up-to-date.

Amplifying Performance with Intelligent Sales Compensation Technology

One of the biggest challenges companies face is inconsistent data as a result of manual compensation management. Today, IBM reports that more than 75 percent of companies rely on spreadsheets to manage sales incentives.⁸ Unfortunately, 80 percent of spreadsheets contain at least one error, the 2019 Sales Compensation Administration Best Practices Survey.⁹

Like we mentioned earlier, centering your entire team around a single data source will maintain alignment and ensure every decision made for compensation management (and all other business functions) is backed by the same insights. For many enterprises, the best way to do this is with an [intelligent sales compensation solution](#).

Ultimately, digital transformation is about more than just automating processes. Automation is helpful to streamline efficiency, but if your sales compensation plans and processes are poorly designed, you're just automating bad plans. The real value of digital transformation comes from artificial intelligence (AI) capabilities.

ENTERPRISES ARE SEEING THE VALUE OF AI

Source: Xactly 2021 State of Global Sales Performance Survey

80% 80 percent of revenue leaders agree that AI provides real value for businesses.¹

AI is the second most valuable sales tool behind video conferencing that organizations have adopted in the past year.³

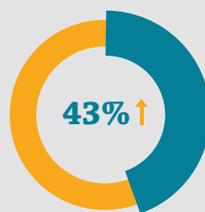
Using an AI-enabled compensation management solution allows you to gain valuable insights from your incentive data to continuously improve performance—something that no manual compensation system is able to accomplish.

Why Companies are Embracing AI-enabled Technology

In a survey of more than 2,000 sales and revenue businesses, leaders named the top factors for accelerating digital transformation.



Improved sales motivation



Increased revenue



Greater agility to adjust commissions in real time

Source: Xactly 2021 State of Global Sales Performance Survey



AI-enabled compensation tools like [Xactly Incent](#) allow you to get a holistic view of your incentive compensation and gain valuable insights to continuously improve upon your success. This also frees up valuable resources on your compensation administration team to provide strategic analysis and further optimize incentive performance.

THE POWER OF XACTLY INCENT¹⁰



99%

error-free payouts



170+

hours saved per
month



60%

faster incentive plan
administration



99.6%

increased forecasting
accuracy

Making Data-driven Sales Compensation Management a Reality

At the end of the day, sales compensation is one of the most important parts of your sales strategy. As the biggest driver of revenue, getting incentive planning right is critical to hitting your targets. And as selling environments continue to rapidly shift and adapt to a more digital, customer-focused world, there's no time to waste.

With intelligent, AI-enabled compensation technology, you can transform the way you design and manage incentives to maximize efficiency, boost performance, and increase revenue. And with the right Incentive Compensation Management partner, it's more within reach and easier than you think.

Want to learn how you can begin transforming your incentive compensation today? Request your personalized [Xactly Incent demo](#).



ABOUT XACTLY

Xactly is leading the way in Sales Performance Management (SPM) delivering planning, execution, and optimization to ambitious and complex sales organizations. We partner with the world's leading enterprises to clear immediate sales roadblocks, enabling them to adapt with optimal sales capacity, territories, compensation plans and payment structures. Harnessing the power of AI, Xactly's scalable, cloud-based platform combines great software with the industry's most comprehensive 15-year data set to give customers the real-world insights they need to improve sales performance across the board by growing revenue, reducing risk, and containing costs.

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