

The Ultimate Guide to Sales Compensation Planning

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Sales compensation planning involves more than just motivating your team through competitive compensation. Employees today also want to have autonomy and creativity in their job and compensation. This means your plans must be flexible for each sales member's role and situation to allow for some freedom within your sales teams.



How can you motivate your sales team through fair and flexible compensation while also consistently reaching your quotas?

Sales leaders today are finding solutions through modern technology like artificial intelligence and automation. Since many digital advances are still new to your industry, you may feel overwhelmed with how to use data to forecast and create sales compensation solutions that actually work.

We will help you overcome those challenges and offer actionable solutions for building a flexible sales compensation plan that will align with your company's goals, incentivize your team, and help you consistently reach your revenue targets.

In this ultimate guide, we will discuss:

- ▶ Key team members in sales compensation planning
- ▶ Essential components in a sales compensation plan
- ▶ Typical roles in your sales team
- ▶ Special considerations for each role when planning your sales compensation strategy
- ▶ Tips for communicating your sales compensation plan



Who to Include on Your Sales Compensation Planning Team

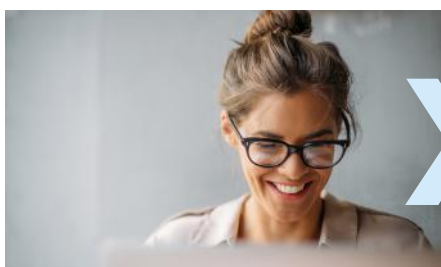
For example, you need multiple members on your team from various departments to provide company-wide representation. A collaborative team can also give unique insights that ensure your plan meets your business's needs and aligns with your company goals.

Here are a few essential team members that should be part of your sales compensation planning committee.



Revenue Leader

Like a Chief Revenue or Sales Officer, a senior representative from sales will be one of your team leaders. They will know essential company information like overarching goals and staff capabilities. This information will help guide the team to make attainable, result-driven plans.



Marketing Leader

Your marketing leader can work alongside the sales leader to bring information about the market, upcoming product releases or relevant company announcements.



Revenue Operations Team Member

Sales compensation plans often affect processes. Therefore, a revenue operations team member can help with the logistic side of planning. Additionally, they can give crucial insights into what strategies need to change to accommodate your sales plans, whether that be capacity plans or territory alignment.

For instance, they'll be able to say, "If we offer X incentive, we'll need to change Y in the data flow."



Compensation Analysts

Having a compensation analyst on your design team can help you understand how new incentive compensation management rules affect payouts. For example, are the rules compatible with the current compensation structure and capabilities?

Your compensation analysts can make better forecasts by using software that can detect patterns more accurately. For example, Xactly's Commission Expense Forecasting tool can alert you to potential financial risks by analyzing your current incentive compensation plans. Your compensation analyst could use those findings to help you adjust your commissions based on different deal changes.

Other Team Members to Consider

- ▶ **Sales team representative** to check the feasibility of the sales performance plan
- ▶ **Finance team** member that can provide budget information when discussing new ideas
- ▶ **Unbiased third party** like a sales compensation consultant to settle debates

15 Principles and Components of a Sales Compensation Plan

Once you have your team assembled, you can begin building the foundation for your sales compensation plan. We will look at some of the guiding principles and components for creating a successful strategy.

We summarize the principles for your team as your sales compensation ABCs, which stand for alignment, behavior, and culture.

- ▶ **Alignment:** You should tailor your compensation plan to each specific role within your sales team instead of using a one-size-fits-all approach.
- ▶ **Behavior:** Your compensation plan should drive the right sales behaviors to help your team reach the company's overarching goals like revenue targets.
- ▶ **Culture:** You should structure your compensation plan around your company's culture and philosophy to ensure your compensation plan aligns with the values of your business.

In addition to the ABCs, you should also build your plan around these other elements:

1. Pay at Risk and Add-on Bonus

A fundamental concept of most sales compensation plans is the idea of “pay at risk.” This means an agent needs to reach the agreed-upon quota or goal to receive their target pay. In exchange, you might offer rewards for surpassing those goals to incentivize your agents to be top performers.


Another approach is offering an add-on bonus as an agent's incentive. These bonuses are accrued on top of the agent's salary as a reward for individual or team performance.

This type of plan is typically seen in sales support or non-sales roles.

This guide will assume that your sales compensation plans will use a pay at-risk approach.

2. Plan Eligibility

Plan Eligibility decides who should or shouldn't be on a variable compensation plan. Generally, for someone to be on a compensation plan where pay is at-risk, that person's role should:

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

3. On-Target Earnings (OTE)

OTEs are the earnings an agent receives when they achieve their targets. It should be based on specific job roles and experience levels, usually with a set range. You can use market data to help you establish these ranges.

View [Xactly's resources](#) to see the latest market data on agent

Properly setting OTEs ensures that you stay aligned with your compensation philosophy, and your agents receive fair compensation. Additionally, you can collaborate with Human Resources to work with their career progression model for each role within the sales team.

4. Pay Mix

Your pay mix is the ratio of base salary and target incentive to On-Target Earnings.

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 is 50/50 or 60/40, while a less aggressive range tends to be 80/20 or 90/10.**

Multiple factors can contribute to how aggressive your pay mix should be, including the type of selling, the length of the sales cycle, and the number of transactions. For instance, jobs with the most influence on the purchasing decision should have a more aggressive pay mix.

Meanwhile, reps with longer and more varied sales cycles and those who have more consultative or strategic types of sales should have a less aggressive pay mix. For example, managers have a wider set of responsibilities than selling, so their pay mix should be less aggressive than the reps that report to them.

5. Plan Objectives

Plan objectives define how you measure each sales role. The objectives should be unbiased and easy to understand. You should also strive to limit the number of objectives each sales role carries to three or less to help your team stay focused. Sales teams with too many objectives can't focus on the goals that mean the most to the company and the bottom line.

Plan objectives should be:

- ▶ Aligned to job roles and responsibilities
- ▶ Relevant to the individual rep who can influence the outcome
- ▶ Easy to forecast and track
- ▶ Focused on a specific output or result

6. Individual or Team-Based Incentives

Are you trying to decide between individual and team-based incentives? Consider these guidelines.

- ▶ Most of the variable pay should be based on individual achievement. This holds sales reps accountable for things they can control.
- ▶ Placing an individual's pay at risk based on team results may not be seen as fair, leading to increased turnover.
- ▶ Team bonuses work best as rewards for contests or accelerators to individual performance.

7. Plan Mechanics

Your plan mechanics are how you measure and pay your agents based on their performance. There are **four primary types of plan mechanics**.

Commission Rate: Pays a set % or set amount per unit sold

1

A commission rate plan is a simple design that works well when territories are relatively equal. This plan is easy to communicate and can be extremely effective for Account Executive roles. However, they are often too basic to handle large discrepancies in territories, leading to unfair agent compensation.

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

2

MBOs are flexible and allow managers to measure each rep according to specific performance objectives. This plan is best for roles with long sales cycles or where there is a focus on specific milestone achievements.

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

3

Rank plans allow managers to set a single goal and focus for reps that aren't necessarily linked to an overall sales goal. However, it can cause unnecessary internal competition and is best when there is a singular focus and goal. Then the competition is healthy and boosts performance.

% to Goal: Pays a % of target incentive for each % of quota attainment

4

This plan works well with unequal territories because you can set individual quotas. However, it is a more complex plan, so you should take steps to ensure it is easy to communicate and administer.

An organization can use the phrase "personal commission rate" when discussing actual commission rates based on an individual's target incentive and quota.



8. Upside (Leverage)

Upside defines how much compensation agents and managers receive when they surpass their goals. This amount will motivate your team members to become top performers and strive to go beyond their quotas. Your upside payouts should be reasonable, responsible, and consistent with your compensation philosophy.

3 Key Questions to Determine Your Upside

- ▶ What is a “top performer” (Top 10%) in each plan component?
- ▶ How much will we reward a top performer compared to those at target?
- ▶ Do we want a cap or decelerate payouts at a certain performance point?

Roles with the most influence on the purchasing decision should have a higher upside earning potential. In typical field sales or account executive roles, top performers often receive three times more than those who perform at target. Meanwhile, top performers receive two times more in customer success rep roles. Managers usually receive less upside because they already have many responsibilities, so less upside helps keep them focused on those duties instead of wanting to fill account executive roles.

You should use plan caps sparingly because they are usually demotivating for reps. Instead, consider using a decelerator to reward overachievement while controlling costs.

9. Accelerators

Accelerators are an increased commission rate that kicks in after sales agents reach their target. They can work as effective motivators to encourage your agents to be top performers. However, you might notice a repeated pattern – your agents will fight to get above the accelerator then drastically slow down.

What does this indicate?

Often, sales reps slow down once they stop making extra money. They may even save some of their sales for the next quarter to help reach their accelerator.

How can you avoid this pattern?

Consider offering strategic incentives that encourage sales reps to perform at their best. When you reward an agent for hitting their quota, you should also reward them when they surpass them. For example, you can offer multiple accelerators based on different commission tiers.

Higher rewards for better performance will boost your revenue. Therefore, when your sales team succeeds, your business succeeds.

10. Performance Period

Your performance period is the timeframe within which you measure your agents' performance. It should reflect the length of your sales cycle and be compatible with your sales management's time frame for setting accurate quotas. Most performance periods are on an annual, semi-annual, or quarterly basis.

11. Payout Frequency

Your payout frequency is how often you pay your sales agents for their performance. We recommend streamlining your payout as much as possible to keep your agents motivated. If your agents have to wait weeks to see a reward, the incentives lose their effectiveness.

Timely payout also helps ensure accurate and proper cash flow. Typically, sales teams use a monthly or quarterly payout system.

12. Quotas

Quotas are the targets you expect your sales reps or managers to meet. They should be fair, realistic, and attainable so that 60-70% of reps will perform at or above their quota. Our platform uses data to predict the ideal quotas so that your sales teams help your business achieve its revenue goals.

You should set your quotas using these questions:

- ▶ 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?

13. Incentives

Unfortunately, only a third of reps meet 120% or more of their target quota. Data shows a curve spike when agents reach 100% before the curve drops. Incentives encourage your agents to go beyond their quotas. Without them, your agents have no reason to improve their performance once they've reached their quota bar.

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:

1 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.

2 Make it worth it.

Motivate your sales reps to perform beyond quota through incentives. When the rep weighs the cost (effort) against the benefit (compensation), compensation must be structured so the benefit emerges as the clear winner.

3 Don't cap your plan.

Your compensation plan must drive the behavior you seek. If sales incentives are eliminated after reps meet 120% of the quota, you send reps a clear signal to stop once they reach that level.

4 Shoot for the right performance distribution.

Align your incentive compensation plan with your goals and revisit data to determine if rep engagement has improved. If reps are still just meeting or barely exceeding their 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.

14. Crediting

Crediting decides who should receive credit for each sale. The sales rep is the obvious choice for the single seller model. However, when more roles are involved in the selling process, you need to set up a crediting policy to keep compensation fair.

Use these two tips to help you establish a crediting process.

1 Credit the individuals involved directly with the sale.

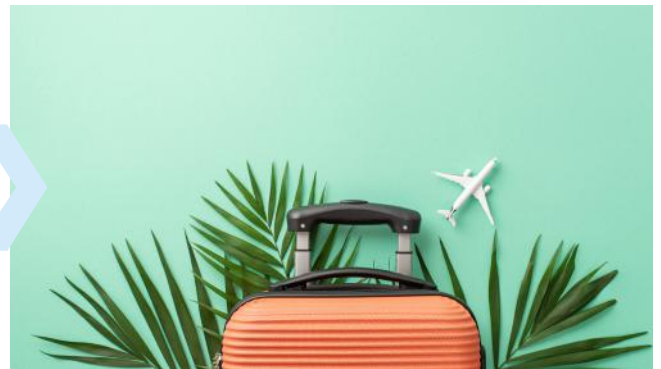
2 Don't pay for tasks that are part of an agent's job description, because their base salary covers them.

15. Additional Rewards

Here are two additional rewards you can implement to keep your sales reps motivated:

Presidents Club

Rewards top performers and sets the bar for everyone else. It's an effective motivational tool that plays nicely into your team's natural competitiveness. For example, you can take key team members on an exclusive trip. Always ensure your club award has appropriate representation from various roles and geographies within your sales organization.



Sales Contests and SPIFFs

Are smaller rewards for selling a hard-to-move product, earning more customer recommendations, or achieving any number of business goals. Sales contests publicly recognize work as it happens to motivate others. For example, you can offer a gift card or bonus if you limit the incentive to a specific time and amount, so they don't become part of your compensation plan.



Essential Roles in Every Sales Team

Your sales team is a guide that transforms leads into loyal customers. Their job begins with raising brand awareness and continues investing in a personalized customer relationship built on authenticity and trust.

Customers won't effectively move through your pipeline without a strong sales team supporting your company. That's why you need to invest in your team so that they have the incentives, tools, and knowledge to pour into your customers.

Here are the four stages of building a successful sales team within your company:

STAGE 1

Equip your existing sales team to handle one-off inquiries from potential customers. The team also continues to nurture existing customers.

STAGE 2

As inbound requests increase, build a dedicated team to nurture loyal customers so your previous team can focus on new customers. Additionally, expand your marketing and product development teams to support your growing company.

STAGE 3

Build a complete team with an account executive and sales specialists, then add an aggressive selling strategy.

STAGE 4

Continue to add more team members based on established ratios, such as:

- ▶ **One Sales Development Rep for every X Account Executives**
- ▶ **One Customer Success Rep for X existing customers**
- ▶ **One Front-line Sales Manager to manage the complete team**

Every role in your sales team is vital for your business's success. Therefore, your sales compensation plan should involve a careful selection of team members that can fulfill specialty roles, including finding new customers, building customer relationships, and answering customer questions.

As your company grows, your teams should also grow to support added sales functions within your department. A strong support system will allow your account executives to focus on bringing in new deals and greater revenue.

We will look at some of the most important roles you should consider adding to your team as your company continues to expand.





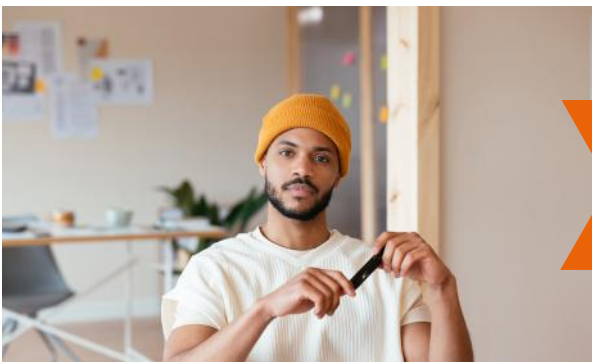
Account Executive

The account executive is a traditional sales agent that brings in new business and converts leads into loyal customers. Your sales compensation plan should focus on rewarding your account executives so that they are motivated to increase company revenue, surpass personal quotas, reach more potential customers, and improve their conversion strategies.



Customer Success Rep

The customer success rep is your connection to current customers. They focus on renewals and upselling products to loyal customers. Building a team of customer success reps ensures you don't lose a customer after their first purchase. Your customer success rep incentive plan should motivate your reps to become top performers to reduce churn.



Sales Development Rep

The sales development rep finds new leads for Account Executives to track. These reps enable your account executives to focus on finishing deals by keeping the pipeline full. Your sales development rep incentive plan will motivate this team member to find the highest quality leads, setting your account executives up for success.



Sales Specialist

Your sales specialist supports the team with their data insights. They present demos and develop proposals using this data – which is especially important for complex sales as they can offer in-depth industry-specific information. Rewarding your sales specialists ensures they continue to support your team with essential sales information.



The Sales Manager

Your sales manager is the leader of your team. A front-line sales manager helps to keep each member focused on the most important deals and ensures the team is reaching optimal performance. When you incentivize your sales managers, you encourage the whole sales team to deliver the best results.

Sales Compensation Planning for Specific Roles

What specific ways can you adjust your sales compensation plan for each of these roles?

We will provide in-depth examples and considerations for five essential sales roles to help guide you. These roles are:

- ▶ Account Executives
- ▶ Customer Success Reps
- ▶ Sales Development Reps
- ▶ Sales Specialists
- ▶ The Sales Manager

Account Executives: Rewarding for New Customers

Account executives have the greatest influence on your final outcomes because they work directly with your customers. Since the deal's success hinges on your account executive's abilities, you should reward them accordingly.

For example, account executives should receive rewards when they succeed and surpass their quotas. However, you should also hold them accountable when they don't meet specific standards.

Things to Consider in Constructing the Compensation Plan

▶ Pay Mix

Invest in a sufficient incentive for your account executives to encourage them to find new customers. Xactly data shows that the average pay mix for account executives is 50/50 or 60/40. The pay at-risk percentage will depend on the complexity of the sale. For example, a well-established brand is easier to sell than a lesser-known player. Therefore, the pay mix may be less aggressive than the pay mix at newer firms.

▶ Upside and Plan Mechanics

Offer sufficient acceleration to motivate account executives and reward them for landing new customers. We often see top performers earn 3x more incentive pay than those performing at target.

▶ Plan Objectives

Create focused and straightforward objectives centered around your business metric. Always ensure your objectives align with your corporate goals and account executives can attain them.

Sample Account Executive Plan for a Software as a Service Company

On-Target Earnings	\$xxx,xxx	Pay Mix (Base/Variable)	55/45
Base Salary	\$xxx,xxx	Annual Target Incentive	\$xxx,xxx

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

4 Steps for Building This Role and Compensation Plan

Separate the top and bottom performers

1

You want to invest in your best account executives by separating them from the bottom performers and rewarding them for their performance. Meanwhile, you should continually examine the bottom performers and decide whether they can succeed or have become a liability to the company. Because of the high turnover rate of account executives, consider implementing a plan that trains new hires faster so you have more top performers.

Establish the playing field

2

You want to invest in your best account executives by separating them from the bottom performers and rewarding them for their performance. Meanwhile, you should continually examine the bottom performers and decide whether they can succeed or have become a liability to the company. Because of the high turnover rate of account executives, consider implementing a plan that trains new hires faster so you have more top performers.

Create stretch goals

3

Base quotas on achievable goals based on each account executive's assigned territory and using specific components. Not everyone will achieve their quota. However, you should strive for a 60-70% success rate. Instead of becoming distracted by quarterly or semiannual sales spikes, remember to also look at your sales as an annual average. Your rep quotas should align with your sales manager's quota, though they may be higher.

Dangle the carrot

4

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 3 is so important). You can establish these payouts based on previous years. Consider what your payout would be if everyone were on target. However, also consider the potential payout if everyone is above or below their targets.

Customer Success Reps: Growing Your Existing Customer Base

Customer success reps are focused on the long-term loyalty of customers. Today's customers expect a much higher level of personalization that requires a greater effort on your reps' part. Don't let them become overshadowed by your account executives because loyal customers make up a greater portion of sales than new customers.

Things to Consider in Constructing the Compensation Plan

► Pay Mix and Upside

Customer Success Reps manage existing customers, giving them a greater chance of conversion than account executives who work with new customers. Therefore, companies often give them a less aggressive pay mix with less upside because of their lower risk factor.

► Plan Components and Weights

You will want to reward customer success reps for their work because building loyal customer relationships that result in upsells and add-on orders is very demanding. However, if you provide too many incentives, you may decrease your customer satisfaction rate because reps will push unnecessary upgrades. Instead, find a balance that recognizes their challenges but encourages customer-centric sales.

► Plan Mechanics

Most companies avoid fixed-rate payment plans. However, you may still pay a fixed rate since many loyal customers will return regardless of a customer success rep's effort. Therefore, your reps don't always have the motivation to improve their performance. That's where your plan mechanics come into play. Consider establishing a minimum performance level requirement before incentives begin and increasing your incentives based on your churn rate.

Sample Customer Success Plan for a Software as a Service Company

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

4 Steps for Building This Role and Compensation Plan

1 Make a list of the reps that will be on this plan

Assemble a list of account managers and their assigned accounts. Make sure that you have the right skills represented for each job. Consider whether they have the right personality for customer relationship management. Also, establish what your annual renewal rate is and how much of that your reps influence.

2 Assign territories and accounts

Make sure you correctly match transactions with the right reps. Then, review your territory management assignments and account lists to determine their equity. Additionally, decide on what revenue you will count and what you will exclude.

3 Set the quota for each account manager

Base your quota on the sum of the renewal revenue and up-selling revenue possible for assigned accounts. Also, base your quotas on attainable numbers within your rep's control. Ask yourself what upselling opportunities exist for current customers and how many reps you hope will meet their quota within your established performance period.

4 Set opportunities for each account manager

Understand how you will compensate your customer success reps and set up payouts that accelerate once the rep hits a different performance level. Consider how much the rep will make if the renewal rate stays the same. Then calculate how much more you want the rep to earn if they beat their numbers. Finally, calculate the total payouts as a percentage of total renewals at different levels and make sure they are worth the revenue you gain.



Sales Development Reps: Rewarding for Qualified Leads

The sales development rep is also known as a cold caller. They aren't the ones responsible for closing a deal. Instead, they create opportunities for your sales team. They are often entry-level positions that act as a steppingstone into another role in the team.

Efficient sales development reps will create a long list of qualified leads for your account executives to convert.

Things to Consider in Constructing the Compensation Plan

► OTE and Pay Mix

Sales development reps will typically have lower OTE than account executive or customer success reps because they are entry-level. Additionally, their pay mix should be less aggressive than an account executive because they have less influence over the result.

► Plan Components

Consider basing their incentives on the number of leads they pass to account executives and on the number of leads that result in conversions. This strategy rewards them for their specific role in the process and the ultimate sale they helped achieve.

Sample Sales Development Rep Plan for a Software as a Service Company

On-Target Earnings	\$xxx,xxx	Pay Mix (Base/Variable)	65/35
Base Salary	\$xxx,xxx	Annual Target Incentive	\$xxx,xxx

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

4 Steps for Building This Role and Compensation Plan

Hire people who aren't afraid of the phone

- 1 Assemble a list of account managers and their assigned accounts. Make sure that you have the right skills represented for each job. Consider whether they have the right personality for customer relationship management. Also, establish what your annual renewal rate is and how much of that your reps influence.
-

Assign territories and named accounts

- 2 Make sure you correctly match transactions with the right reps. Then, review your territory management assignments and account lists to determine their equity. Additionally, decide on what revenue you will count and what you will exclude.
-

Set the quota for each account manager

- 3 Base your quota on the sum of the renewal revenue and up-selling revenue possible for assigned accounts. Also, base your quotas on attainable numbers within your rep's control. Ask yourself what upselling opportunities exist for current customers and how many reps you hope will meet their quota within your established performance period.
-

Set opportunities for each account manager

- 4 Ensure the pay mix is appropriate for each role. It should be less aggressive than an account executive because they have less influence over the result. Evaluate whether you have the right tools in place for your reps to find new leads and what your qualification process is. Decide how much of the closed revenue you want to pay your sales development rep to encourage them to pass more qualified leads.
-

Sales Specialists: Rewarding for Specialized Skills

Sales specialists work with a group of account executives to present demos and draw up contract proposals. They ensure the account executives can focus on closing as many deals as possible while showcasing the products and data. The more complex the sale, the more important it is to have a sales specialist to help with prospects' questions.

Because Sales Specialists aren't the ones closing the deal, their pay mix should be less aggressive than the account executives. However, they may be the final presenter of the product to the customer in some cases. Therefore, you will want to consider a more aggressive pay mix than you have for your customer success reps.

Things to Consider in Constructing the Compensation Plan

► Sales Difficulty

Consider how technical your product or demo is in comparison to your potential customer. Whenever your sales specialist works with a more complex situation, they should be compensated accordingly with a more aggressive pay mix and greater upside.

► Product Familiarity

Compensate your reps depending on whether the product or service is a new or established and familiar item.

► Support's Role

Decide each rep's role in the sales process and whether the support person will need to respond to competitive claims made during a demo.

Sample Sales Specialist Plan for a Software as a Service Company

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

4 Steps for Building This Role and Compensation Plan

Make a list of reps that will be on this plan

1

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. Ask yourself whether they have the right technical skills, strong presentation skills, and are comfortable having their pay be dependent on the actions of others.



Assign coverage responsibilities

Each sales rep should feel supported by their sales specialist. You can build a strong and effective team by pairing new sales reps with a sales specialist.

2

Decide on the ratio of sales specialists to sales reps and whether your sales specialist team can provide the necessary support. Continually analyze your team to identify whether all the members have similar capabilities or whether they might be better suited elsewhere.

Set the quota

Create a sales specialist quota that reflects the sum of their rep's quotas. Consider whether there are different types of revenue credit that you should count or exclude. Decide how to respond if everyone on the sales team makes their individual quota and compare that team's performance to the previous year's performance. Create a process for managing credits already in progress when a new rep joins the team.

3

Set the opportunity

Ensure the pay mix is appropriate for this role. It should be less aggressive than an account executive because they have less influence over the result. Establish a benchmark for excellent performance by a sales specialist, then adjust your payouts to reflect performance levels. Calculate how much a sales specialist will earn if all their reps are on target. Consider adding an additional measure to motivate your sales specialist to support all the reps instead of a select few – and a bonus if all their reps meet their quota.

4

The Sales Manager: Rewarding for Team Performance

The front-line sales manager is responsible for their team's performance and deserves compensation that reflects this crucial position. They are typically measured similarly to their team, with the potential for additional incentives for job-specific objectives. Aligning the sales manager with their team ensures the department remains unified and moves in the same direction.

Things to Consider in Constructing the Compensation Plan

► Pay Mix and Upside

Part of being a Front-line Sales Manager is accepting responsibility for a team. Therefore, their focus should be coaching reps versus closing deals. Consequently, a manager's pay mix is typically less aggressive than the reps that report to them. Also, it isn't unusual for top sales reps to earn more than their managers.

► Plan Components

Sales managers should be aligned with their team's goals. In many companies, reps don't have control over pricing and discounting policies. Therefore, reps are often measured on a revenue plan component, while the front-line sales managers should be measured on a margin or pricing component.

Sample Front-Line Sales Manager Plan for a Software as a Service Company

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

4 Steps for Building This Role and Compensation Plan

Find your leaders

1

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. Have you promoted your best rep out of the field, or have you truly found a sales leader? Next, establish a training plan to develop other leaders in your business. Consider how many people your leader can supervise and what supervision entails. Then, adjust your management's span of control accordingly.

Set reporting responsibilities

2

The typical plan credits the front-line sales manager with the sum of all deals from their assigned sales reps. When new sales reps are added, management also automatically receives credit for their performance. Decide whether your front-line sales manager will supervise one rep or a mixed roles sales team. Then establish how you will credit your manager and whether you will exclude any revenue sources in your managerial crediting.

Set the quota

3

The performance period for managers typically defaults to whenever they receive their direct reports, including monthly and quarterly goals. These periods are usually set to guide both reps and managers. Consider whether managers should have an over-assigned quota, meaning the manager's quota is higher than the sum of the team's individual quotas. Establish how the manager's quota should reflect open positions, new reps, and experienced reps.

Set the opportunity

4

Many companies vary their 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 include how much a manager will earn if all their reps are at quota and how much top reps make compared to their managers.



How to Communicate Your Sales Compensation Plan

Congratulations, you've designed the most effective sales compensation plan for your team. Next, you analyzed your plan using benchmark data to ensure you've made the best decisions. Now you are ready to watch your business transform into a well-oiled machine that generates revenue and drives results.

However, there is still one vital step missing. You still have to communicate your new sales plan to the relevant parties so that they can successfully implement it.

This step isn't as easy as you might hope. Instead, you may run into three common challenges in communicating and implementing your plan.

1. Your sales reps might assume they will lose existing benefits in the redesign.
2. Your employees are often wary of what management considers "changes for the better."
3. Your management might lack the ability to clearly communicate new plan changes so that reps recognize the benefit to them – which is critical for adoption and buy-in.

Balancing Your Management Layers

Does your sales team have too many management layers?

You must carefully balance your managerial team to ensure you have enough leaders to guide your team without creating unnecessary layers that make plan implementation difficult. For example, if you have too few layers, your managers can easily become overwhelmed and can't properly train, coach, and guide their team to meet organizational goals. However, if you have too many layers, you will also have greater costs.

Thankfully you don't have to make this decision on your own. Instead, you can use data to predict your needs and analyze other companies with similar structures, which will help guide you in making management decisions.

Here are **three steps** to guide you in balancing your management.

- 1 **Use 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.
- 2 **Take a close look at shared credits:**
Xactly data shows that companies pay a lot of people per deal. Several 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? Are all those compensated contributing to the sale?
- 3 **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.

Your profits are the best measure of how well you balance your management team. Once you have that perfect balance, you are ready to put your new compensation plan into action by using your managers to train and educate their teams on the new policies.

3 Steps to Communicate your Plan Effectively

Keeping your sales teams updated is critical for the success of your compensation plan. Here are three steps to communicate the design and get everyone on board.

Step 1: Assemble a Solid Communications

Use the highest sales management level to introduce your new plan. This could be your VP of sales, chief sales officer, or a similarly respected leader. They should use their sales performance management expertise to introduce the plan in a beneficial way to encourage a positive response.

This step should be successful if you have qualified people in your managerial roles. However, some companies might not have a manager that is also a good communicator. If this is your case, then consider choosing only the managers that are comfortable and have a proven ability to speak up and motivate their team.

Step 2: Be as Transparent as Possible

Once you have your strong team of leaders with excellent communication skills in place, you are ready to start spreading the word about the plan. When your leaders relay information, they should be thorough and transparent, allowing for questions to ensure everyone understands the plan and addresses all concerns.

You should emphasize how the new plan differs from their old plan and how that affects them. Be sure also to highlight the benefits for each team member. These benefits will motivate them to use the new plan and keep everyone fully engaged while assessing the current sales compensation plans and fine-tuning them for future success.

Step 3: Prepare for Success

You can measure the success of your communication strategy by answering 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?

New changes are often met with some hesitancy and aren't always a smooth transition. However, with the right managers in place and a strong plan, your teams will quickly see the many benefits of your sales compensation plan.

Use Data to Track and Measure Your Success

Your intelligent revenue system is only as successful as your sales compensation plan is. However, you can use the platform to help create an effective plan based on current trends and relevant data from other companies.

You should build your sales compensation plan on a foundation of data, using benchmarks and best practice thought leadership to position yourselves in line for success. However, even with all the valuable data you poured into your plan, it won't work without your sales team members and their crucial roles in your department.

Automation is in nearly every business today, helping teams perform tasks faster while analyzing mounds of data. Let your automation tools work alongside your teams to ensure your plans succeed. You can also use its insights to adjust your plans and keep them relevant in today's changing sales environment.

Xactly: Your Intelligent Revenue Platform

Xactly's comprehensive Intelligent Revenue Platform (IRP) leverages a data-driven approach to provide timely insights across the entire SPM value chain, from sales planning to execution, including compensation to optimization. With access to predictive analytics and benchmark data, enterprises can now create optimal sales resource and capacity plans, balanced territories, design the right compensation and incentive plans and accelerate attainment and optimization of sales performance.

With Xactly's Intelligent Revenue Platform, enterprises can manage complexity and scale to:

- ▶ Leverage a data-driven approach ensuring optimally staffed sales organizations, equally distributed quotas, balanced territories, and benchmarked comp plans to drive a 15% increase in revenues, a 20% improvement in productivity, and 10% greater quota attainment
- ▶ Drive desired sales behaviors through tailor-made incentives and compensation plans and automate crediting and commission calculations driving error-free commission payouts, increasing forecast accuracy to 99.6%, and lowering error disputes to less than 0.5%
- ▶ Integrate and comply with commission expense accounting with the latest ASC 606 / IFRS 15 revenue standards
- ▶ Optimize continuous sales performance with near real-time data insights and leverage true AI/ML to predict sales rep attrition to proactively retain top-performing reps, improving sales ramp and productivity to increase win rates by 15%.

Visit us to schedule a demo and learn more about how Xactly can help your business boost its sales performance.

