2020 Benchmark Report

How to build compensation plans for your sales team

QUOTAPATH

REVENUE COLLECTIVE

Introduction

QuotaPath has helped 100+ individuals create comp plans for their teams. This is a summary around how your peers build compensation plans.

Who

157 respondents within Revenue Collective

Respondents are members of Revenue Collective's Executive and Associate groups. Mostly located in North America and Europe working for SaaS companies.

What

"How do you build comp plans?"

The questions centered around how you build compensation plans for your reps. Analyzing the impact of accelerators, decelerators, commission rates, products and company revenue.

Why

Uncovering the most common comp plan practices

From how compensation plans are created, how and when they're rolled out, to what the 'average' compensation plan looks like.

The average compensation plan

Business:
SaaS

Over 75% of the responses we received were from organizations that considered themselves SaaS businesses.

Base Salary:
50% On-Target Earnings

When looking at OTE, more than half the respondents paid their reps 50% base and 50% commission.

Quota Period:
Quarterly

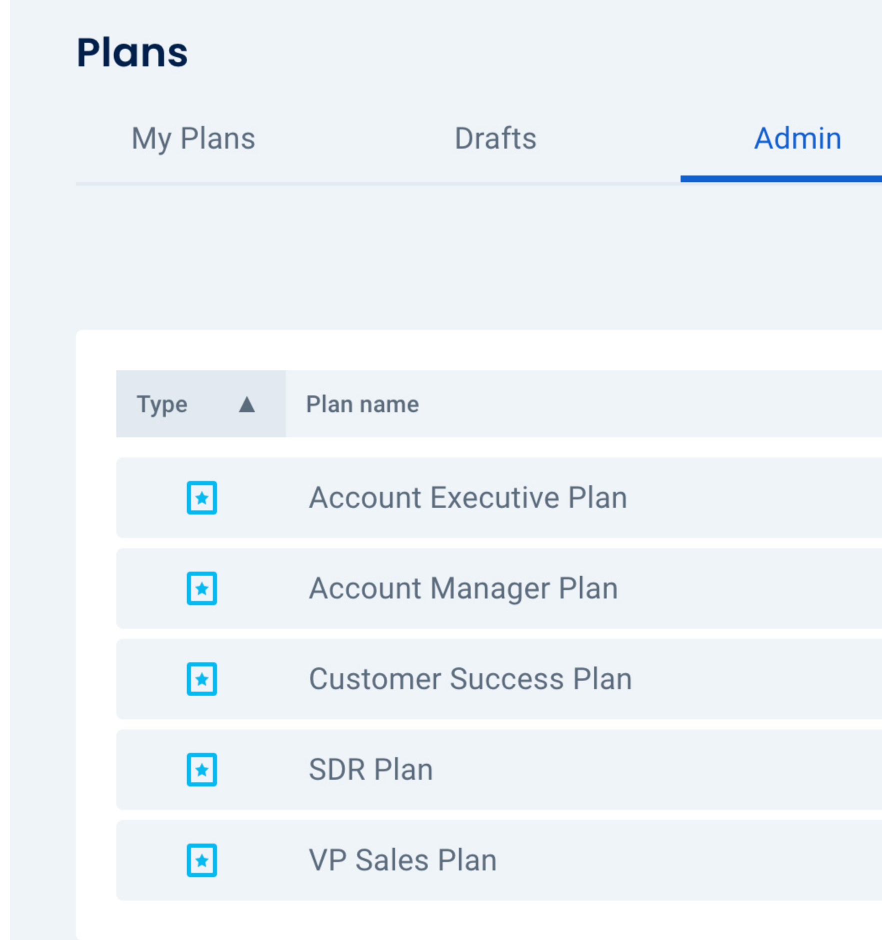
While a good portion of individual contributors (ICs) have monthly and annual quotas, the majority have quarterly quotas.

Created by:
Sales Leadership

Who builds a comp plan? On average it's Sales Leadership. However, there are some stark differences in plans built by other teams.

Variables:
Accelerators + Decelerators

Three-quarters of plans feature some kind of accelerator and decelerator based on quota attainment. Some plans feature different commission rates based on product or contract length, but very few have all three components.



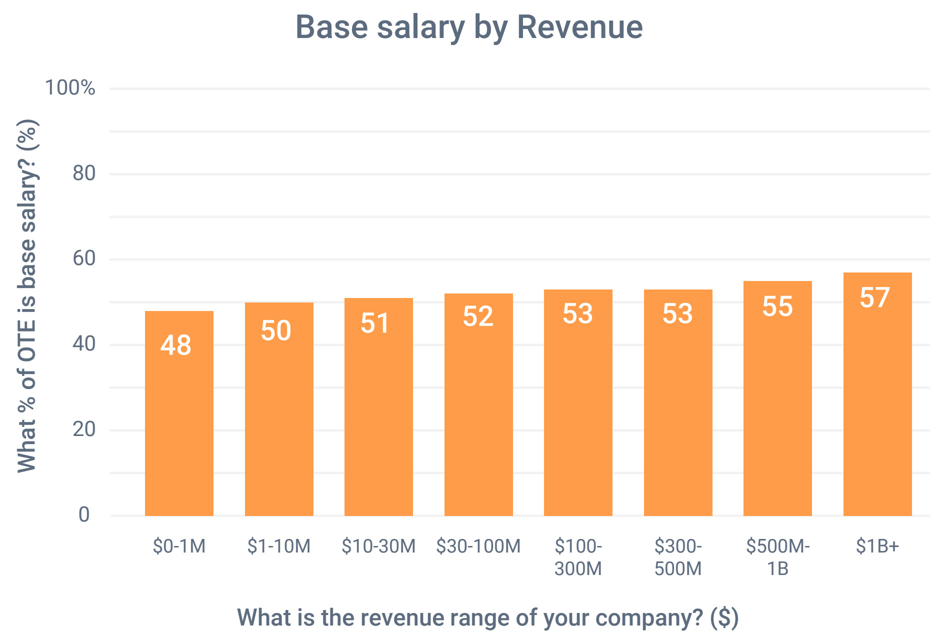
Base salary

50/50 is the norm

When talking about On-Target Earnings (OTE) a common question is “what’s the base/commission split?”. As a reminder, OTE is the amount of money a rep earns if they hit exactly 100% of their quota over the course of a year. The two components of that are the base salary and the commission/bonus they earn for closing deals.

The data proved what most sales leaders likely already expect: base salary is typically 50% of the OTE.

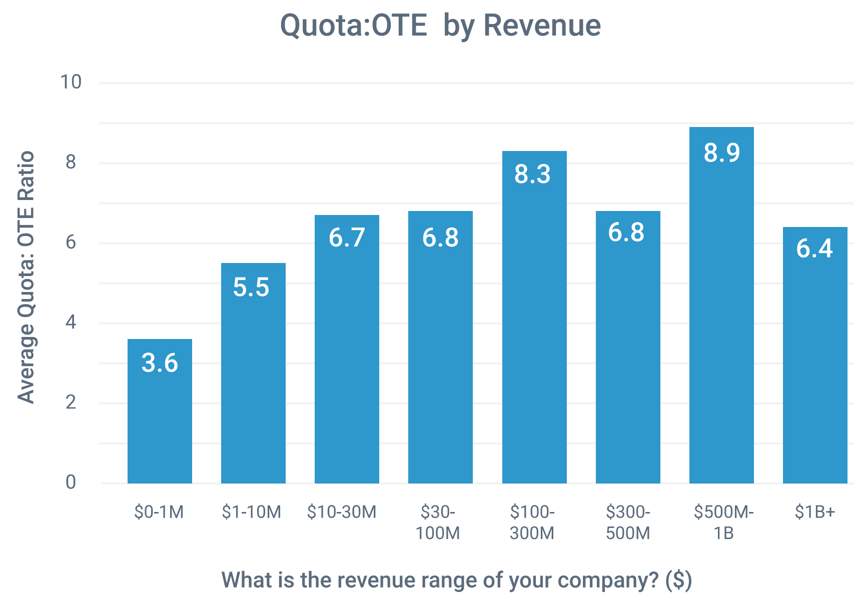
As revenue increases, the average base salary tends to increase, but never above 57% or below 48%.



Annualized Quota to On-Target Earnings ratio

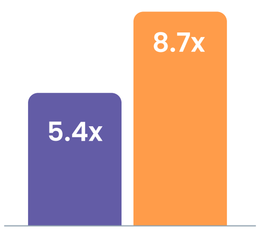
One of the most common ways of setting quotas is to take the On-Target Earnings of a seller and multiply it by some number to come up with an annualized quota. In our sample size, that number ranged from 2 to 24, depending on a lot of different factors.

Keep in mind, there are a lot of other ways to set quotas to ensure that you're getting the right quota for your reps. For example, if you're in a recurring revenue model, your ratio might be lower than if you sell one-off services. Or if you're breaking into a new market, your ratio might need to be lower than if you're a well-established brand. This metric is a starting point for most companies and a good way to ballpark your quotas, but take other considerations into account.



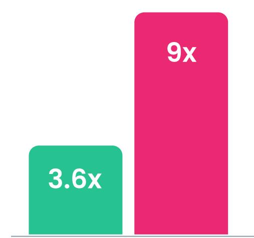
A guide, not a rule

Keep in mind, this is a general guide based on averages. Don't panic if your ratio isn't what you see here. Just be sure to keep it above 1x!



SaaS vs. Non-SaaS

There is a stark difference between SaaS businesses and those that are not SaaS. We see an average Quota:OTE ratio of 5.4x for SaaS and 8.7x for Non-SaaS.

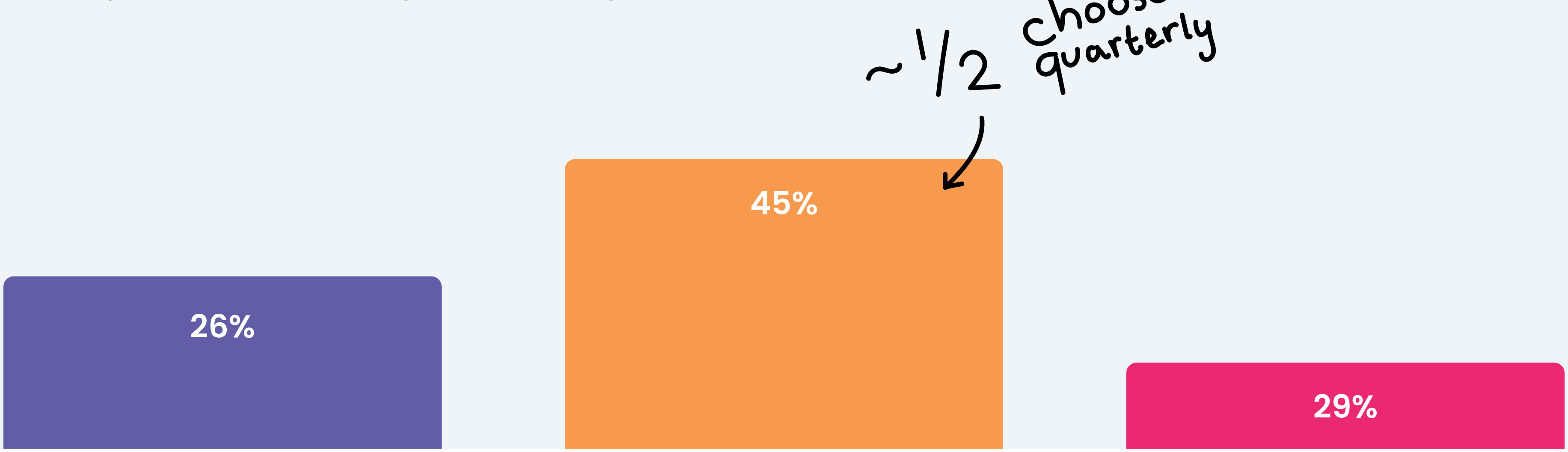


Revenue changes things

As you can see, as revenue increases, so does the Quota:OTE ratio. Starting as low as 3.6x and increasing to almost 9x for billion-dollar companies.

Quota frequency

There are three major ways of measuring salespeoples' quotas: monthly, quarterly, or annually. Each has its own advantages and disadvantages.



Monthly

About one quarter of organizations choose monthly quotas. They do so if they have a short sales cycle, multiple deals per month, and want a rapid pace of sales. However, if you have a sales cycle that is 60+ days or only close 1 or 2 deals per quarter this model might be wrong for your team.

Quarterly

Quarterly quotas seem to be the Goldilocks of quotas, and nearly half of teams use them. If your team has a mid-range sales cycle from 30 to 120 days and your team is closing 2-10 deals per quarter, quarterly quotas are likely the right choice.

Annually

A year is a long time for a quota, so only certain industries and sales cycles support them. If your reps are working enterprise deals with long sales cycles that require substantial relationship building, yearly quotas could be ideal. If you have a highly seasonal business, annual quotas could help even things out. However, it's hard to know if someone is far behind or ahead if they only have 1 number to hit the entire 12 months.

Comp plan modifiers

While there are certainly plans that simply pay a flat commission rate on all deals closed, they are rare. Instead, most organizations use accelerators, products sold, contract length, or other modifiers to the commission rate. Modifiers are like pizza toppings, though. One or two is nice, but add too many and the plan (pizza) becomes confusing (hard to eat).

Accelerators

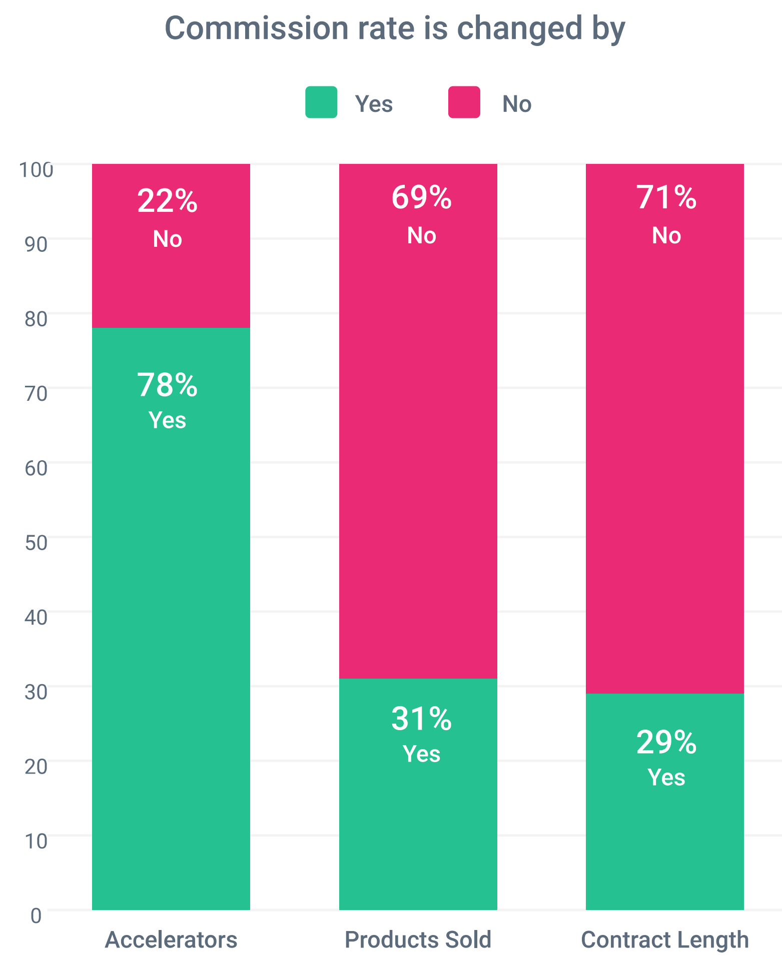
Almost 80% of comp plans in the survey used some form of an accelerator and/or decelerator. This means that the commission rate changes based on how close the rep is to hitting their quota.

Products sold

Lots of SaaS companies only have one product. Some companies have dozens of different products their sales team can sell. About 1/3rd of the companies surveyed varied their commission rate based on whether the rep sold Product X or Product Y.

Contract length

About a third of companies give a higher commission rate the longer the contract is. This is typically reserved for 2 or 3-year contracts, but there are cases where an annual contract is paid at a higher rate than a monthly contract. Lock in the revenue for a longer period of time and the AE shares in the profit.

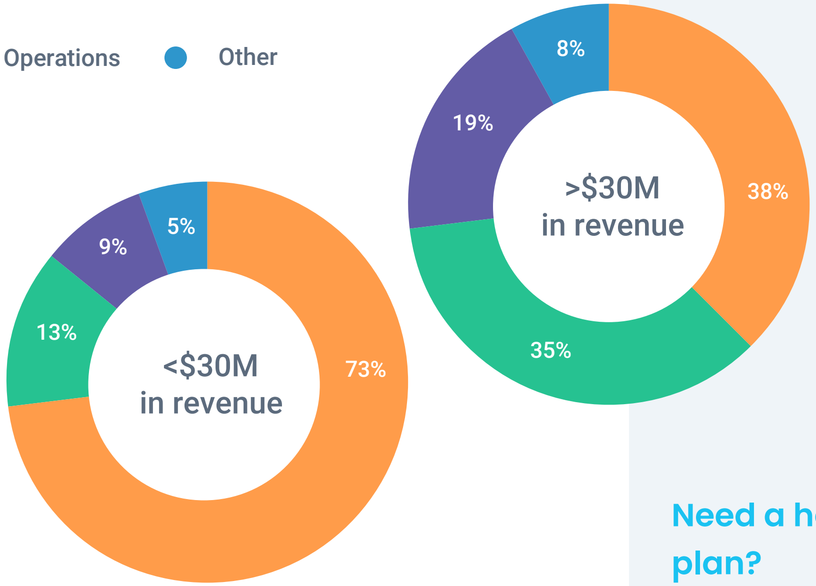


New comp plans

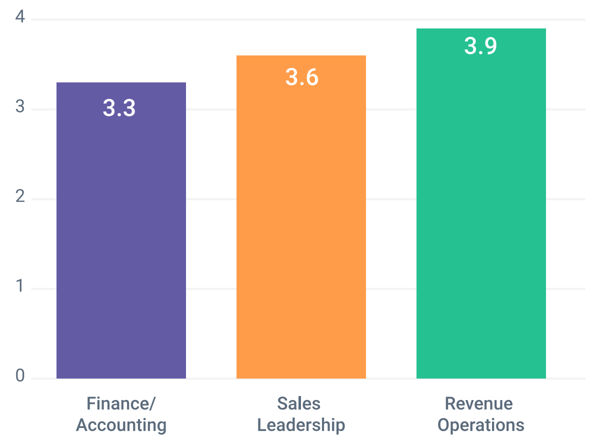
Sales Leadership · Finance/Accounting · Revenue Operations · Other

Who builds comp plans

In an ideal world, building a comp plan takes no time at all, is totally understandable, and easy to maintain. However, someone has to own the building of the comp plan. The ownership of this task changes dramatically as the sales of the company increase. Before a company hits $30MM in revenue, Sales Leadership is responsible for comp plan construction 73% of the time. Once you get above the $30MM mark, Revenue Operations and Finance step up to the plate more often, 35% and 19% respectively.



Comp plan confidence by who builds the plans



Confidence in plans

Who builds the plan has a pretty drastic effect on how much confidence the team has in their comp plan. Revenue Operations, with their numbers-driven approach, combined with their proximity to the sales team, create the most trusted comp plans — 3.9 out of 5. Sales Leadership, with their focus on rep happiness, make the second-best plans — 3.6 out of 5. Finally, Finance with their concentration on building a plan that makes fiscal sense for the organization build plans with the lowest confidence — 3.3 out of 5.

Need a hand building your plan?

No compensation plan should be built in a vacuum, nor should it fall to just one person. If you need help building a plan or just want a sounding board, we're here to help. **Schedule some time with our resident Sales Nerd!**

Commissions

7.2 hrs

spent by Finance/Accounting per month to calculate commissions

It takes HOW LONG?!

That's right, on average it takes 7.2 hours every month for the person who owns commissions to run all the calculations, verify them with every rep, and submit them. And it increases as the sales team increases — 12 hours on average for companies above $30MM in revenue.

In general, this onerous task falls to Finance about half the time, and Revenue Operations and Sales Leadership handle it the other half the time. However, unless you're using a tool to provide transparency to your reps, they're likely tracking commissions on their own using a spreadsheet.

Ready to bring clarity to commissions at your organization?

Tracking and managing compensation for an entire growth team is no easy feat. Hey, it's even hard as individuals to accurately keep track of earnings. Companies like Guru, Sapling and Close come to us looking for help with:

- More automation around commission calculations
- Performance tracking and rep transparency with real-time dashboards
- Simplifying and managing multiple comp plans and one-off changes
- Eliminating errors and mistakes from old data or miscalculations
- Automating commission statements
- Historical data tracking and real-time CRM updates

Join 1,000s of organizations using QuotaPath to track, manage, and motivate their sales teams.

Book a demo

Or, sign up for free now