QUOTAPATH Pavilion

Navigating Commissions and Compensation Planning in a Volatile Job Market

Introduction

This year has been a year of extremes in the tech world. From talent shortages to recent lay-offs, it has been a precarious time for many in the labor market. Despite all of this volatility, something remains constant — the need for comprehensive compensation packages that exceed employee expectations.

Employees today still want remote work, flexibility, and higher wages, which have not been increasing at the same rate as inflation. In fact, according to Hubspot, voluntary turnover at for-profit businesses hovers around 25%. Further, 25% of respondents to a PayScale study said they left their jobs for higher pay. While this is likely to slow down due to aforementioned lay-offs and significant decreases in funding, hiring remains a challenge and a good overall compensation package is as important as ever.

Moreover, competitive compensation packages are a strong way to motivate your team and retain your best talent. As Deloitte says, "Sales compensation is an integral part of salesforce effectiveness and involves aligning all aspects of plan design, from pay mix to target setting to the product and market strategy."

Is your comp package competitive enough to retain the best of the best? Even if it is, has the process been systematized to allow reps visibility into their monthly or quarterly earnings? How can you make your comp structure competitive, while still being flexible enough to meet market demands, and consistent enough to provide accurate forecast data to both finance and sales reps?

We interviewed four leading sales and finance executives on how they structure compensation and commission, lessons they've learned, and the processes they've employed, so you can design better comp packages that attract and retain top talent.

How competitive is your compensation/ commission structure?

Even with the downsizing across industries, many sales teams are poised to expand significantly in the coming year. Non-startups aim for 5-10% growth year over year, while SaaS companies — especially pre-IPO, pre-profit businesses – have a 100% year over year ARR growth target.

Attracting the best team to accomplish these ambitious goals means having a comp package that caters to the needs of the current workforce. Typically, SaaS companies have a 10% commission rate, while standard OTE is somewhere from 4 - 6x quota. An important question to ask is:

> Is this competitive enough to retain the best?

> Do your reps agree that your comp structure is not only fair, but appealing?

> Does it play to their strengths and consider historical performance?

> Does it motivate them to increase attainment and incentivize the right sales behaviors?

Too often, companies pay their sales people incorrectly – around 80% of them according to a 2017 study. "I want to be generous with commission, but for me, it's a little bit of picking and choosing – equity or commission," says Akash Bhatia, Co-founder at Epoch AI. "To incentivize sales people, I show them what they can pick from and they can decide what makes them most happy with their compensation package."

Helping your team understand their comp plans is an underestimated retention tactic.

This level of transparency can be powerful for not only building trust with your reps, but also providing great internal customer experience. As Sam Siegel, VP of Finance at Zoomin says, "Good [account executives] really want to understand their commission plans."

> Maintaining a system any team member can use to accurately forecast their commission instills confidence in your team, knowing that their hard work will be rewarded.

Consistency in how commission is earned and paid out is crucial to top-tier comp structure. Most AEs and Business Development Reps have to guess what their pay-out will be, never clear on which commissions get paid in which checks. Plus, some companies struggle to adjust the payment variables as reps meet and exceed quota. Being consistent and flexible with your structure can provide a competitive advantage, as, Bhatia believes, "most companies [don't] do a good job being transparent with comp plans. Being transparent helps all around."

In addition to being consistent, transparent, and flexible, your commission structure and compensation plan needs to be able to scale with your business over time as the demands of the market continue to change. Yet, there are a few challenges that might prevent this streamlined growth.

Challenges to effective and scalable commission structure

The financial incentives of a stand-out comp plan matter just as much as the efficiency of the system. In order for it to be a long-term net positive for your sales team's recruitment efforts, your commission structure needs to be scalable and sustainable, motivate your associates, and ultimately improve your team's attainment levels.

Unfortunately, this process is disorganized for most teams. Without a predictable comp model, scaling is an uphill battle. Worse, plans to streamline often fall apart when a unique condition is introduced. Here are some other challenges that limit scalability:

Lack of internal alignment

As Conor O'Donoghue, CFO at Ocrolus, says, "It is important that sales leadership, revops, and finance are all in alignment with the commission structures and processes." Without alignment across leadership and departments, it will be difficult to effectively scale comp.

"Incentives being aligned with sales leaders is sometimes a challenge," says Bhatia. "I think founders generally like to motivate people through equity. Most mid-junior level sales folks want to make money through equity and also big commission checks, but the two rarely work together."

Executive alignment is crucial for pushing deals forward and ensuring that reps and sales leaders have the same objectives in mind. The comp plan should be informed by strategic business goals. A lack of alignment with these goals and other executives indicates organizational inefficiency, reduces sales leaders' ability to effectively motivate their reps, and makes consistent comp hard to execute.

Ad hoc processes

Not having a streamlined or systematic way of executing comp plans makes it difficult to keep track of pay-outs and performance. Whatever structure you use needs to be reflected in the tools being used to plan and execute your plans.

For scaling teams, using spreadsheets often prove more tedious than beneficial. With spreadsheets, your data doesn't update in real time, so all departments involved might be working with different information. Spreadsheets also make it difficult to account for special cases. Formulas can easily break when new variables are added, delaying commission pay-out and inhibiting accurate forecasting by finance.

As your team grows, you need to be able to effectively track whether your employees are being paid at the right level. This requires building logic into your existing systems, which can be a struggle.

Poor sales rep motivation

If your commission structure is weak, or if the effort doesn't seem worth the payout, then your team will not be motivated to sell more. You cannot scale a system that isn't working. Compensation is an important motivator, yet too often the quota is unattainable or seems unfair.

A lack of motivation frequently leads to missed quotas. According to Sales Insights Lab, only 24.3% of salespeople exceed their quota in 2021. Sadly, the measurement of performance becomes the objective itself, which in turn motivates reps the wrong way. It's challenging to "understand if what we're incentivizing is actually happening," Kyle Deering, VP of Sales at Corvee, says. "Or is the sales person finding a way around it because the measurement has become the goal?"

Motivated reps, internal alignment, and systematized processes are crucial to a scalable commission structure. Without these, you have a far lower chance of attracting and retaining top sales talent.

Tips for streamlining a compensation plan for sales rep retention

A solid compensation structure and process is mission-critical to retaining the best sales team members. It's one thing to be competitive from a numbers perspective, and another thing entirely to be competitive in your overall approach to compensation planning.

Here are some tips for streamlining your comp plan:

Launch a rewards program

Moving beyond cash, what does the employee want and respond well to? Using rewards programs to complement other aspects of your comp structure can be highly motivating to your team. Competitions, accelerator programs, and escalators are excellent alternatives that can bring out different ways of accomplishing set goals.

According to a study by Theirf.org, nine out of 10 top-performing companies use rewards programs to incentivize their sales team members. Further, they state that "well-structured programs can improve employee performance by almost 50%."

Deering says his team leverages "more escalators because we want it to be more systematic vs quick bursts of energy." Likewise, Siegel wants to ensure that they incentivize good behavior, including upsells and overperformance.

Use a playbook

Playbooks can provide clarity into the commission process. Documenting your commission structure, even at a high level, offers your sales associates visibility into their potential earnings. Playbooks are crucial because, as Akash says, it helps "rev leaders … understand the entire process, not just pieces of the sales process or commission process."

Siegel and his team at Zoomin take advantage of playbooks. "We have an outline that documents everything that needs to be known about the commission process so everyone can understand what's good for them and what's good for the business."

However, playbooks can quickly become outdated, especially in faster-moving industries like SaaS, so it's important to keep it regularly updated with frequent reviews.

Provide visibility into commissions

Outside of playbooks, find other ways to provide visibility into commissions. Not just what the structure is, but how much they can expect to make with each paycheck. When reps know what actions and behaviors will bring them closer to their personal earnings goals, they are far more likely to take it seriously.

At Zoomin, Siegel uses calculators "so that [salespeople] can see what their commission check will be for each sale."

Deering also uses a calculator, and notes that his team is able to run mid-month tallies of their commission with accurate estimates. "Launch and run actual previous monthly commissions against the new plan to show them how it actually works so they don't assume they are getting a pay cut."

Don't be afraid to make comp complex

Most people avoid changing their comp plan or commission structure mid-year. They do this to maintain as much consistency and visibility as possible. O'Donoghue agrees with this strategy, saying, "I feel like it's important not to change the comp plans too often so people are able to have that visibility into their commission."

But, almost 90% of sales team members who leave a company do so because of poor compensation. Often, it's because the comp is below market price and/or because the commission structure is unpredictable.

Avoiding complexity means refusing to sweeten the pot for top-performers who bring in the most business. Our team at QuotaPath believes mid-year changes can be beneficial, as long as leadership clearly communicates the new plan as well as how the company will support them to meet the new changes. As with any compensation plan, it's all about transparency with your sales team. And it's better to make changes to your comp and commission plan than to keep going with a broken structure.

Conclusion

Commission structures and compensation plans are key to attracting and retaining top sales talent. Having a competitive plan and using it to incentivize good behavior is a crucial part of quota, target, and goal attainment. Unfortunately, most companies don't have a strong handle on what today's workforce needs to feel fairly compensated.

For some companies, even when a fairly decent comp structure exists, the lack of surrounding systems makes it difficult to execute. Not to mention how hard it is to motivate teams when commission becomes a guessing game. It's near impossible to effectively scale a business when there's no clarity or consistency in commission and compensation. Siegel shares an important question to guide your plan: "Is this commission structure good for now and will also serve us in the future? We need to find the balance there."

Companies can start to put their best foot forward by streamlining the commission structure and comp planning process to be more transparent, consistent, and flexible. Empower your sales associates to forecast their own earnings and feel more ownership over their deals, and offer a mix of comp structures to make attainment more exciting. Build a standout comp plan that defines business goals and the roles of each team member. Then, figure out comp, OTE, and a quota for your team. Make sure to share visibility into the plan so each team member feels included and motivated. It is vital that this communication comes from sales leadership directly – not HR, not Finance.

There are multiple ways to effectively navigate commission structures and compensation plans – just look around. As Siegel says, "SaaS is not a new space and there is no need to reinvent the wheel."

To learn how QuotaPath can help you design a better compensation package and motivate reps through commission transparency, book a time to chat with our team here.