Seven Key Tenets of Sales Compensation To Drive Growth in Subscription Businesses

The success of a product relies heavily on a high-performance sales team that is organized, incentivized, and aligned with business objectives. Subscription-based technology companies, with their focus on long-term customer relationships and incremental growth, require a well-structured sales function. To effectively drive sales and improve customer success, it is essential to implement a sales compensation and incentivization strategy that aligns with specific business goals and customer lifecycle needs. In this document, we present seven key tenets distilled from extensive experience working with SaaS companies, enabling you to incorporate them tactically into your sales compensation strategy for desired results.

1. Align Compensation with Overall Go-To-Market Design & Initiatives:

To create a successful salesforce, SaaS companies should align the sales compensation plan with the company's Go-To-Market ("GTM") design and goals. Successfully tackling this imperative requires companies to:

- Evaluate the target market, customer journey, and sales process
- Prioritize performance metrics that align with company objectives, such as market penetration
- Develop a sales compensation plan for those rewards activities aligned with the customer journey
- Track data and adjust the plan as needed for GTM success
- Monitor sales team performance, incentivize goal achievement, and provide training for skill improvement and adaptation to GTM changes

After the successful alignment of sales compensation with GTM design, clients can unlock a measurable increase in sales productivity with a concurrent increase in engagement across sales enablement initiatives. These parameters suggest a motivated salesforce that understands its role in achieving company goals. This alignment will drive performance, increase sales effectiveness and contribute to the overall success of the GTM strategy.

2. Index Commission Rates on Sales Motions

Far too often we've witnessed clients apply a peanut-butter commission rate for all deals and reps; such a rate policy has been shown to distort value for the rep as well as the company. Assigning different values to different types of deals acknowledges varying business impacts, such as deals involving incremental products/services that should be valued higher than renewals. Moreover, applying a factor to commission rates, such as 1.5-2.5x for new accounts and 1.1-1.5x for upsells/cross-sells, ensures differentiation of value. Commission rates must also distinguish between sales motions (e.g., hunters vs. farmers) to appropriately adjust payouts relative to the type of effort.

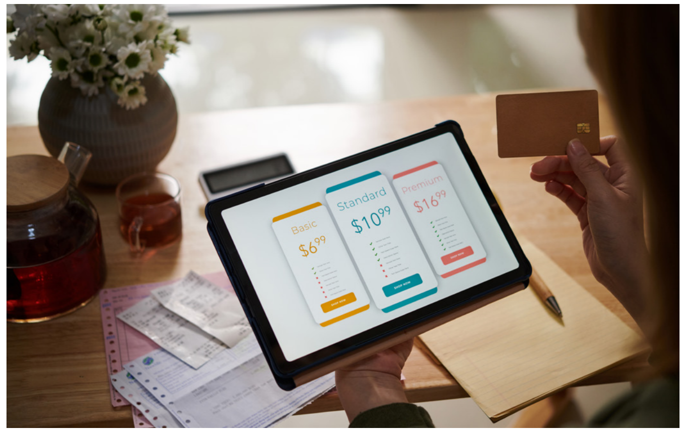
Implementing these factors, we've witnessed clients achieve varying business impacts, such as:

— **Improved Focus**
Assigning higher values to deals involving incremental products/services encourage sales reps to prioritize these opportunities, driving growth and expansion.

— **Incentivized Performance**
Applying a factor to commission rates for new accounts and upsells/cross-sells motivates sales reps to actively pursue these types of deals, resulting in increased revenue and customer expansion.

— **Tailored Compensation**
Distinguishing between sales motions, such as hunters (new customer acquisition) and farmers (account management), allows for appropriate adjustments to commission rates, ensuring fair compensation based on the nature of the sales role.

— **Optimal Resource Allocation**
By differentiating commission rates, the company can allocate resources and sales efforts more effectively, focusing on areas that offer higher potential returns and aligning compensation with strategic priorities.



Overall, this approach ensures that sales incentives are aligned with different deal types, maximizing revenue generation and driving the desired sales behavior according to the company's business objectives.

3. Embed Product-led Variables within Sales Incentivization

Across multiple clients, we've seen that implementing strategies that incorporate the nuances of a product portfolio into quota and compensation processes has led to several favorable motions across company performance such as:

— **Product-Led Growth**
Incorporating "below-the-line" incentives, such as SPIFFs tied to product mix thresholds, encourages sales reps to focus on selling specific products, driving growth in those areas, and maximizing the potential of the product portfolio.

— **Successful Product Launches**
Offering kickers or special incentives for launching new products motivates sales reps to actively promote and sell those products, resulting in increased sales and successful product introductions.

— **Improved Sales Performance**
Providing adequate training and resources to support sales reps in selling targeted products enhances their product knowledge and sales skills, enabling them to effectively communicate the value proposition and drive sales.

— **Short-Term Sales Boost**
Implementing shorter-term strategies like giving kickers to sales reps for reaching a certain number of sales or a

specific dollar amount for a new product can generate immediate sales momentum, leading to increased bookings and revenue.

- **Enhanced ROI**
  By instituting focused product incentives with commission kickers, companies can achieve a typical return on investment ("ROI") of 1.5-2x, driving significant growth in bookings (20 percent-30 percent) and maximizing the revenue potential of the product portfolio.

4. Ensure that Payout Structures Align with Company Performance

Leading practices suggest that SaaS companies need to align sales incentives with company performance by tying commissions to at least three variables: revenue growth, customer retention, and upsells/cross-sells. Provisions could be made to offer bonuses for exceeding quotas aligned with company goals. Given recent macro conditions, payouts include 50 percent upfront and the rest after customer provisioning/payment instead of 100 percent upfront. Furthermore, regular reviews, involving reps in goal setting and transparent programs strengthen the link between the company and sales performance.

Typical outcomes we've seen across SaaS clients when payout structures are effectively aligned with company performance:

- **Increased Revenue**
  By incentivizing sales reps to focus on revenue growth and upselling/cross-selling, the company experiences a boost in overall revenue.
- **Improved Customer Retention**
  Tying incentives to customer retention encourage sales reps to prioritize building strong relationships and delivering value, resulting in higher customer retention rates.
- **Quota Overachievement**
  The bonus program motivates sales reps to exceed quotas, driving exceptional performance and surpassing company targets.
- **Accelerated Sales Cycle**
  The half-upfront commission structure still incentivizes sales reps to close deals faster, reducing sales cycle length and increasing efficiency.
- **Enhanced Sales Team Engagement**
  Involving sales reps in goal setting and providing transparency in the incentive program fosters a sense of ownership, motivation and alignment with company objectives. This leads to increased engagement and satisfaction among the sales team.

5. Focus on Higher Customer Lifetime Value ("CLTV") to Drive Profitable Revenue

The north-star metric for most SaaS businesses is the customer lifetime value ("CLTV"), so it warrants that SaaS companies should look to tie sales performance to this metric. One approach we recommend to clients to drive growth in CLTV is by aligning sales incentives with longer-term (3-to-5 year) customer deals and indexing on CLTV-related metrics. Overall, thoroughly understanding customer needs and tailoring your sales approach increases the chances of higher CLTV. Following are some tactics we've implemented for SaaS clients:

- Tying a portion of sales commissions to CLTV-related metrics such as upsells/cross-sells, contract terms or customer retention.
- Implementing a system to track CLTV and making it accessible to sales reps for better customer value visibility.
- Setting quotas for CLTV, prioritizing valuable customers over overall revenue growth.
- Using a balanced scorecard approach that considers customer satisfaction, product usage, and upselling.
- Communicating CLTV goals and objectives, linking them to the company's performance and growth.

Companies can expect the following results when implementing the aforenoted strategies:

- **Increased CLTV**
  By incentivizing sales reps to focus on CLTV-related metrics, the company experiences higher customer retention, increased upselling/cross-selling, and longer contract terms, leading to a significant boost in CLTV.
- **Improved Customer Value**
  Sales reps, equipped with CLTV data and visibility, are better able to understand customer needs and deliver tailored solutions, resulting in higher customer satisfaction and increased customer value.
- **Enhanced Sales Performance**
  Setting CLTV quotas and using a balanced scorecard approach motivates sales reps to prioritize long-term customer relationships and customer success, leading to improved sales performance and revenue growth.
- **Stronger Customer Commitment**
  By focusing on longer-term deals and aligning payout structures accordingly, the company builds stronger customer relationships and commitment, fostering loyalty and repeat business.
- **Alignment with Company Objectives**
  Communicating CLTV goals and linking them to overall company performance helps create a unified focus across the sales team, driving alignment with business objectives and long-term growth.

6. Ensure Differential Compensation and Payouts Based on Rep Performance:

Implementing performance-based sales incentive programs is a table-stakes for SaaS companies aiming to build high-performing sales teams. We recommend clients define high and low performers based on specific metrics like quota attainment, revenue growth, customer retention, and upsells/cross-sells, to establish different commission structures that align with individual performance levels. A streamlined and data-robust CRM system is a bedrock for accurate tracking and monitoring of sales performance, providing valuable insights for decision-making. Without a foundational CRM capability, clients struggle to build fair payouts for sales reps.

Furthermore, regular performance reviews and transparent feedback sessions to recognize and reward top performers have helped clients outperform business targets in a competitive environment. Bonuses, stock options, or other incentives also serve as powerful motivators, fostering a culture of excellence and driving consistent high performance. At the same time, coaching and training opportunities need to be provided to reps to support and uplift low performers, helping them enhance their skills and achieve their goals.

By implementing these initiatives, companies can unlock an environment that values and rewards sales excellence while providing the necessary support for continuous improvement. These efforts not only improve the effectiveness and productivity of the sales team but also contribute to overall revenue growth and organizational success.

7. Focus on Operationalization and Implementation:

One of the fundamental aspects we evaluate early on for a client is its operational and implementation capability of a sales incentive plan. A great incentive plan on paper provides little value if it cannot be put in motion by the sales operations team. A simple litmus test for complexity is to check how much time it takes for the company to issue quota and compensation letters to reps, and whether the issuance of these comes within one-to-three months of the start of the new fiscal year. Following are a few areas to consider streamlining sales operations function:

- Simplify the quota-setting and compensation process to ensure actionable strategies that do not delay processes
- Collaborate with IT, Operations, and Sales to align compensation plans with CRM systems and constraints
- Strengthen systems if tracking CRM data is nascent, and design improvements if systems are mature

We've seen cross-collaboration collaboration with IT, Operations and Sales lead to the following outcomes:

- **Streamlined Operations**
  Simplifying the quota-setting and compensation process eliminates unnecessary complexities and delays, allowing sales teams to focus on selling rather than navigating complicated administrative procedures.

— **Improved Alignment**
Collaborating with IT Operations, and Sales ensures that compensation plans are aligned with CRM systems and constraints, enabling accurate and efficient tracking of sales performance, and facilitating data-driven decision-making.

— **Enhanced Performance Tracking**
Strengthening CRM systems or designing improvements enhances the ability to track and analyze CRM data, providing valuable insights into sales performance, customer behavior, and market trends.

— **Optimized Territories**
Implementing territory-balanced quotas and compensation ensures that sales opportunities are distributed fairly among territories, maximizing the potential for sales success and revenue generation.

— **Efficient Administration**
Swift and error-free administration of compensation, along with an easy-to-understand structure, empowers sales reps by providing clarity and transparency, boosting motivation, and reducing administrative burdens.

Closing Thoughts

To drive performance and achieve a company's Go-To-Market vision, sales compensation must be appropriately tuned for profitable growth. Translating company objectives into incentivization metrics for the sales team is crucial for an effective salesforce. Understanding the objectives, people, and motivations of the staff is essential for developing and retaining a high-performing sales team. Incentivization structures should be tailored to each unique business while considering fundamental industry benchmarks. Careful evaluation is necessary to determine the best strategy that aligns with the company's overall objectives for long-term success.

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