SALES COMPENSATION AND INCENTIVE PLAN PRINCIPLES FOR ENTERPRISE SAAS & CLOUD TEAMS

By Jeffrey Saling
I feel fortunate to share some helpful experiences from building a $60M+ SaaS Sales Performance Management business at Callidus Software. The shared experiences are drawn from working with hundreds of companies with sales forces in many industries, ranging between 50 to 350,000 reps and covering single territories to the entire world. With this enterprise perspective, along with managing my own SaaS sales force, I hope these conclusions and best practices are directly helpful and inspire discussions on sales incentives and organization types.

Incentive and organizational levers for business verticals vary, but high-performance principles are similar. Ideally sales incentives derive directly from company goals set by as shown in the graphic below provided by Chuck Devita of Growth Process Group. There are, however, many trade-off decisions to make for specific business situations, such as:

- Company and executive ideal,
- The product marketing / engineering laboratory
- Sales management desires for immediate impact
- Practical operational and finance administration

![Diagram of Corporate Goals and Design Guidelines](image-url)
SAAS / CLOUD INCENTIVE COMPENSATION PLAN BASICS:

Once you’ve set your goals, below are a few guidelines on how to implement those goals into compensation plans that will work for your SaaS / Cloud sales force focused on enterprise solutions:

1. Incent the behavior you desire with between one and four measures. For example, the first measure is commonly Annual Recurring Revenue (ARR) or Annual Contract Value (ACV). Secondary measures include renewals (or the inverse, churn). Other measures are total contract value (TCV), deal count, cash-in, and/or specific product-based incentives. Additionally, a few meaningful contests and SPIF’s are appropriate.

2. Keep the measures simple and consistent with commonly referenced business metrics and the data to which sales has direct access. Do not compensate on data that sales cannot access directly (without IT) or is not 100% transparent.

3. Pay incentives monthly or quarterly, but reporting must be more frequent and transparent.

4. Establish a clear process for questions and disputes.

SALES FORCE ORGANIZATIONAL MODELS FOR SAAS / CLOUD SALES TEAMS

While you are considering compensation plans, also consider the sales force’s organization. Which sales organization model works best for SaaS / Cloud sales forces? The Book of Business model is optimal for small and medium-sized teams. Larger teams have more options for specialization. This writing focuses on the advantages of the Book of Business model, in which a sales professional (account executive) owns an account beyond the initial sale.

While considering what works best for your company, keep customers’ desires top of mind. From a company sales management perspective, it is common knowledge that some sales professionals are better hunters of new business, while others are stronger at farming the existing customer base for renewals and business expansion. Initial and-post sales separation of duties may serve the provider company better, but customers prefer account management by the person with whom they initially formed the relationship.

There are additional cost and incentive considerations for customers and providers. Hunter - Farmer specialist sales organizations with predominantly “hunter” incentives encourages sales professionals to maximize initial deals versus contracting for what prospects prioritize in their procurement cycles. A Book of Business organization and compensation model provides strong incentives for fast, consistent ACV production, working multiple deals over succeeding quarterly or annual renewal periods.

Some will argue that renewals and business expansion takes little or no selling effort, so why pay or organize for them? The notion that renewals and expansions are automatic is plainly false to anyone who works with customers. Good Book of Business sales professionals (more hunters than farmers) will work new and existing customer patches to maximize company and customer results. As a soft benefit, the model generates high satisfaction levels within sales teams and customers. Sales professionals do not feel forced to give up accounts that produce income after winning the initial business. Customers avoid feeling “downgraded” after signing an initial agreement or forced to re-educate new contracts on their business and solution goals.

Book of Business is a powerful, natural feeling model for SaaS / Cloud relationships.

WHAT’S BETTER FOR YOUR COMPANY - ELEPHANT HUNTING OR CONSISTENT PRODUCTION OVER TIME?

Many SaaS and cloud businesses value regular deal volume versus fewer, larger transactions at the end of each quarter or worse, the year. To achieve smoother transaction bookings, put incentives in place to encourage even production as in the example that follows:

• Pay a quarterly bonus for meeting minimum volume, typically 15-20% of annual quota.
• The quarterly quota bonuses, if earned at 100% for the year, should represent 25-33% of the total variable incentive payout
• If the quarterly minimum is not met, half of the
quarterly quota bonus is forfeited, with the balance rolling forward.

A meaningful bonus for consistent bookings performance (with a minor penalty for inconsistency) sharpens the focus on making regular bookings. While the recurring revenue model of cloud / SaaS contracts smoothes revenue recognition and allows for highly accurate financial projections, it does not naturally offer relief for lumpy bookings.

**ACTION PLAN: HOW SHOULD YOUR COMPANY PAY?**

A good enterprise sales compensation plan can be described in one or two slides. The plan below is a starting point and requires some configuration; it is not a “one size fits all” solution.

In the sample case study company, the following enterprise selling assumptions apply:

1. Average ARR / ACV Contract is in the range $200,000 to $250,000
2. Quota range is $750,000 to $2,000,000, depending on patch (average: $1,000,000)
3. Range of “normal” ARR / ACV contracts is $50,000 to $2,000,000
4. Normal term is 1 year, average of all contracts signed in a year is 18 months
5. OTE for incentive portion of pay should be $110,000 - $140,000 (+ spifs and contests)
   » Commission to bonus ratio is 75/25 to 67/33
   » Annual renewals account for 15-20% of total incentive compensation

**SAMPLE ENTERPRISE SAAS / CLOUD ACCOUNT EXECUTIVE (AE) COMPENSATION PLAN: BOOK OF BUSINESS PLAN**

Incentive #1: Commission on ARR / ACV (not TCV)

<table>
<thead>
<tr>
<th>Term / Payments</th>
<th>Quarterly arrears</th>
<th>Annual up front</th>
<th>All up front</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year</td>
<td>5%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>2 Years</td>
<td>6%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>3 Years</td>
<td>7%</td>
<td>8%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Incentive #2: Quarterly Quota Bonus (QQB)

1. AEs are paid a QQB of ($8,000 or TBD) per quarter when 20% or more of annual quota amounts are booked.
2. AEs exceeding 25% of pro-rated (YTD) quota in a quarter are paid forward the prorated remaining QQB @ 125%
3. If the minimum performance is not met, 50% of the QQB is forfeited. The remainder is rolled forward to the subsequent quarter, except at year end

Incentive #3: Renewals on ARR / ACV (not TCV)

<table>
<thead>
<tr>
<th>Term / Payments</th>
<th>Quarterly arrears</th>
<th>Annual up front</th>
<th>All up front</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year / 1st Year</td>
<td>1.5%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>2 Years</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>3 Years</td>
<td>7%</td>
<td>8%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Quota retirement: Quota is based on net new ACV.

Annual renewals do NOT retire quota. Multi-year committed renewals do retire quota for amounts above the first year of renewal.

Accelerators: When quota is exceeded, 2% is added to each cell on the commission table.