



HOW TO BUILD A POWERFUL SALES COMPENSATION PLAN

OPENVIEW

ringDNA

 RINGLEAD

TABLE OF CONTENTS

Introduction	2
How to Structure a Sales Compensation Plan for SDRs	3
How to Structure Sales Compensation Plans for Account Executives	6
Using Performance Metrics to Help Reps Meet Their Goals	9
Frequently Asked Questions	12
About Openview Venture Partners	16
About RingDNA	17
About RingLead	18

INTRODUCTION

Optimal sales compensation plans are the secret sauce to not only hiring great reps, but also motivating them to peak performance. A great compensation plan can keep your best reps happy and motivated. But in order to keep reps performing at their best, it's crucial to ensure that they know what is expected of them. Your comp plan needs to establish clear goals and guidelines. Only then can managers effectively work with reps to keep them sure-footed on the path to success.

Another reason that compensation is a hot-button issue is due to retention. As competition to hire great sales reps grows increasingly fierce, great comp plans can also help you keep them. DePaul University's Sales Effectiveness Study found the average cost of turnover for a single sales rep to be a whopping \$114, 957.

Inspired by a webinar that OpenView Partners, RingDNA and RingLead presented on sales compensation, this eBook will address how to structure and implement compensation plans that drive powerful results.

This eBook will show you how to:

- Coach your reps to their revenue-driving potential
- Establish reps' on-target earnings (OTE)
- Hire the right number of reps to meet your goals
- Measure reps' activities in real time
- Structure successful data-based compensation plans
- Set accurate quotas

01

HOW TO STRUCTURE A SALES COMPENSATION PLAN FOR SDRS

Common Questions

If you're new to structuring sales compensation plans, you almost certainly have a lot of questions. Some common questions managers ask about sales compensation plans include:

- Are my reps being compensated fairly?
- How should I weight a rep's base salary versus their bonus?
- Should SDRs be compensated based on opportunities, won revenue or both?
- Is a rep's on-target earnings (OTE) compatible with industry trends?
- Should I include activity quotas in my compensation plan (such as calls per day and emails per day)?

The good news is that structuring sales compensation plans doesn't have to be complicated. For most sales reps, simple compensation plans can often deliver the best results.

The Three Essential Parts of a Sales Compensation Plan

- **Base:** The amount reps see in their paychecks that is unaffected by performance
- **Bonus:** The additional amount reps receive based on meeting various goals
- **Kicker:** Any additional bonus that is tied to closed won deals or competitions

Keep it simple. More often than not, SDRs are millennial hires and this is only their first or second job after school. If compensation plans are too complex, you run the risk of confusing and overwhelming the rep, which will inevitably lead to poor performance.

CeCe Bazar
Sales Strategist, OpenView Partners



The 40/60 Rule for Bonuses

Several of OpenView's portfolio companies are using a 40/60 rule when it comes to SDRs' bonuses. 40% of their bonus is tied to appointments, while 60% is tied to opportunities. This rule prevents reps from setting appointments with unqualified prospects just to hit an appointment quota. Rewarding SDRs with a kicker for opps that close is another great way to motivate SDRs to source quality opportunities.

OTE Breakdown: Base Vs. Bonus

So what's the best way to set on-target earnings in comp plans? It's important for many reps (especially younger, unseasoned ones) to be able to rely on a regular salary in order to pay their bills. Bazar therefore recommends a plan that is weighted toward the base: 70% base and 30% bonus. More seasoned inside sales reps and managers, on the other hand, may prefer a salary with less of a base and a bigger bonus. When hiring account executives, this is always an important conversation to have.

SDR Comp Plan Example

So tying it all together, for a newly hired SDR, a comp plan could break down like this monthly:

- **Base Monthly Salary:** \$2K
- **Potential Bonus:** \$1K monthly payout
- **Goals:** 16 appointments, 8 opportunities
- **Payout:** \$25 per appointment and \$75 per opportunity

02

HOW TO STRUCTURE SALES COMPENSATION PLANS FOR ACCOUNT EXECUTIVES

Account executives' compensation plans should still have the same basic elements as your SDRs' comp plans (base, bonus and kicker). However, in order to know how much to compensate account executives, you need to be able to predict how much revenue they're going to drive. That's where quotas come in. A quota refers to the amount of revenue that account executives are expected to generate for your company. You can set monthly, quarterly or yearly quotas. Some organizations set all of the above. A quota is essential because it clearly sets expectations.

The Power of Predictability

Remember that sales reps are motivated not just by money, but also by opportunity. It takes an abundance of highly targeted opportunities to keep your reps motivated to hit their numbers.

*Setting quota is all about predictability.
Predict your potential revenue and you can
ensure that quotas are set accurately.*

John Kosturos
Chief Revenue Officer, RingLead



According to RingLead's VP of Sales John Kosturos, by controlling the lists of leads that reps will be targeting, management can do a far better job of predicting potential revenue.

How to Predict Revenue And Set Quota with a Segment Analysis

To accurately calculate quotas, Kosturos recommends conducting a segment analysis, which predicts the revenue that will be generated from a particular lead list. Your segment analysis can help determine how many reps you need on staff to exhaust a list of leads, how much revenue can potentially be won and, as a result, how much reps can be compensated.

Step 1: Discover How Many Reps to Hire

In order to know how many reps to hire, you'll need to determine several factors, including:

- Total number of potential accounts per segment
- What percentage of leads should convert to customers
- Number of activities it takes to close an account
- Goal for how long it should take for your team to work through each market segment

Example Analysis

Accounts: Let's say there are 25,000 accounts that your reps can potentially work.

Contacts per account: Now let's say there are three key contacts per account. This would result in 75,000 total contacts.

Activities per account: Let's suppose an average of eight activities (calls or emails) per contact. This would be 24 per account.

Activities per list: It would require 600,000 total activities to exhaust your list.

Activities per week: New reps can usually accomplish about 600 activities per week. $600,000/600 = 1000$ weeks

Goal: If the goal of the company is to exhaust the list in around one year (52 weeks), you'll need to hire 19 salespeople. ($1000/52=19.2$)

Step 2: Set Quota

To establish quota, start by calculating the potential revenue that can be created. You'll need to know your average deal size and close percentage. For tech companies, let's assume an average deal size of \$10,000 and a reasonable close rate: 5%.

5% of 25,000 accounts is 1,250 accounts. So let's say that in a year, your team of 19 reps will be closing deals with 1250 accounts from your list of 25,000. With an average deal size of \$10,000, you can predict that your team of 19 reps will close \$12,500,000 in a year. Divided by 19, you should be setting your quota at a minimum of \$657,895 per rep.

Step 3: Establish OTE

Once you've established your quota, you can have a better idea of what reps' on-target earnings (OTE) should look like. Obviously offering higher OTE in your comp plans can help with recruiting and motivating reps. Let's assume that your reps' OTE will be 20% of their quota, that would mean that their salary plus bonuses at quota would amount to around \$131,500 (FYI: The Bridge Group reports that the average OTE for inside sales reps in 2015 is \$118,000). Remember, to never put a cap on reps' earnings. You want to motivate reps to not merely meet their quotas, but blow them out of the water.

03

USING PERFORMANCE METRICS TO HELP REPS MEET THEIR GOALS

For any rep, achieving top performance requires an abundance of well-timed and well-executed sales activities. By monitoring the right metrics, managers can help ensure that reps are conducting the right activities at the right times.

Coach Your Sales Team in Real Time

In order to make sure that reps meet their goals, managers need real-time visibility into reps' activities. According to RingDNA's CEO Howard Brown, this requires companies to commit to a single sales data source, such as CRM. It's crucial to achieving transparency.

Great sales managers don't only tell reps what's expected of them. They are constantly coaching their reps to help them meet (and hopefully exceed) those goals.

Howard Brown
Founder & CEO, RingDNA



Reps should always be given the ability to see how their activities, as well as the outcome of those activities, are stacking against their goals.

Managers should always:

- Measure activities and blend them directly into comp plans.
- Utilize commonly tracked metrics.
- Hold weekly meetings to ensure goals are being met.

In order to help reps hit their goals, here are some of the most important metrics you need to track:

Activity Metrics

Call Volume

This refers to the total number of dials that reps make per day. As a benchmark, the [SaaS Inside Sales Survey](#) from The Bridge Group shows that reps make an average of 46 dials per day. Of course by leveraging sales acceleration software, reps can dial far more prospects than that daily.

Email Volume

According to research from McKinsey and Company, today's inside sales reps typically spend 28% of their day emailing prospects in addition to calling. It's therefore important to ensure that reps are emailing prospects enough.

Follow-Up Attempts per Lead/Contact

Are reps following up with leads and opportunities (either via call or email) enough times? If, for example, you decide that you want five touches per lead (as author and entrepreneur Jeff Hoffman recently [prescribed on Hubspot's blog](#)) before exhausting that lead, it's important to have visibility into how many times reps are reaching out to leads.

Conversations per Day

How many actual conversations are your reps having with prospects? The Bridge Group's SaaS Inside Sales Survey shows that the average inside sales rep is having 5.8 conversations daily. Again, this number can potentially be increased by leveraging sales acceleration technology.

Outcome Metrics

Call/Email-to-Meeting Ratio

What percentage of calls are resulting in meetings being booked? Knowing this number will help you more accurately establish daily activity quotas. It also helps in your calculation of how you're going to compensate reps for booked meetings vs. revenue. If the number of meetings is high, but the revenue from those meetings is low, you may have to adjust comp plans to be weighted more heavily on revenue.

Call/Email-to-Opportunity Ratio

It's also important to know how many opportunities are resulting from your calls. This can help you determine how much you want to compensate reps in a bonus for booked opportunities.

Call/Email-to-Revenue

How many activities is it actually taking to generate revenue? Knowing this will help you establish quota and make smarter revenue predictions.

FREQUENTLY ASKED QUESTIONS

The compensation webinar that OpenView, RingDNA and RingLead hosted featured a lively Q&A. Inspired by that Q&A session, here are some of the most frequently asked questions about sales compensation, complete with actionable answers from leading experts.



CeCe Bazar
OpenView



Howard Brown
RingDNA



John Kosturos
RingLead

How often should you be paying out commissions?



CeCe Bazar: When it comes to their bonus, the most important way to pay out your reps is on a monthly basis. Many organization pay out quarterly or annually, and that's great if you have huge enterprise deals, and you're talking to more seasoned sales reps. However, if you're talking about the BDR/SDR profile, paying out monthly is a great way to keep them engaged, hungry and knowing that there is a light at the end of the tunnel. Keeping them as motivated as possible will only work to your favor.



Howard Brown: It's helpful to consistently involve competitions or spiffs in your sales process. Inside sales reps tend to be competitive by nature. So allowing them to compete with their peers can motivate them to peak performance.

How often and when should you re-evaluate commission?



CeCe Bazar: If you change your comp plan too frequently you can run into problems. If your team doesn't know what's expected of them, they can't hit their goals. Therefore commission re-evaluation should be done on an annual basis. Tie it to your sales team's annual review.



Howard Brown: Commission should change with the market. When demand for inside sales reps is high, as it is now, you might encounter heavier turnover rates. So if you start encountering too much turnover, you may need to reevaluate commission more frequently in order to make sure your comp plans can sufficiently incentive your A-players to stay on.



John Kosturos: If something is not working for you, you need to change it. That should be your indication, not timing. If you're able to analyze your data, and your sales reps hit their activity levels, then your compensation plan is working.

What do you need to know in order to target your ideal accounts?



John Kosturos: To identify your ideal accounts, look for customers that:

- Respond well to marketing
- Require the least amount of activities to move through the different sales stages
- Have the highest conversion rates from leads to opportunities
- Have the largest average opportunity value
- Have the highest lifetime value

For B2B sales, it's also important to know what software your leads are using, such as Salesforce, Marketo, and other marketing automation and CRM platforms. Other criteria might be industry, size, number of employees, revenue, etc.

If you offer free products, how do you structure a comp plan to get revenue?



John Kosturos: You can pay more if a sales rep schedules a demo for a paid-for product, however, for SDRs, it's their job to generate leads, and if those leads have proven a model that will convert in time, then you can put a dollar amount on each one of them.



Howard Brown: Conduct a cohort analysis against your profile buyer and determine what it takes to turn them into a revenue generating customer. You should not punish a BDR/SDR for doing their job effectively in getting people in the funnel, even if it's for a free product.

How do you create a sales compensation plan for millennials?



CeCe Bazar: Across many startup portfolios, the millennial profile has become the key player on sales teams. With zero to two years of experience, they are often fresh out of school coming in with the blank slate, therefore, they are an ideal profile because they don't have many bad habits in need of breaking.

Great compensation plans for millennials comes down to two things: simplicity and structure. Since they are likely new to the workforce, they don't typically know about compensation plan options or details, so keep it simple for them. Tell them exactly what it is that is expected of them, and clearly lay out the details with structure. Structure is ultimately what's going to give you the competitive advantage on your team.

How can managers coach reps to meet the goals in their comp plans?



Howard Brown: The golden rule: compensating reps on performance requires visibility into all activities and the efficiency of those activities. Always give reps visibility into their own activities against those goals. This will incentivize them on a daily basis. We've always known that the number of sales conversations reps have greatly impacts their quota attainment, but today's top performing teams are also measuring call-to-meeting ratios, call-to-opportunity ratios and call-to-revenue ratios.

The background of the slide is a photograph taken from inside a modern office, looking out through large glass windows. The view outside shows a city skyline with several tall buildings, including a prominent one with a blue and white checkered facade. In the foreground, a river flows, and a bridge with a white metal truss structure is visible. The office interior is dark, with some structural elements visible in the foreground.

OPENVIEW

OpenView Venture Partners is an expansion-stage venture capital firm specializing in building great B2B software companies.

We are more than just advisors. We are an extension of your team.

www.openviewpartners.com



Powerful Inside Sales Acceleration

Sell smarter, faster and more efficiently

“Simply the best inside sales solution for Salesforce.



Sean Whiteley
Founder, GetFeedback, a Campaign Monitor Company

“RingDNA call data is something we could not live without.



Erik Kostelnik
Head of Sales, Wrike

“RingDNA was our best sales productivity investment this year.



Scott Clugston
Director Sales, FreshBooks

“If you work with Salesforce, there is no better solution I'm aware of than RingDNA.



Colin Cadmus
VP Sales, Doctor.com

Call us: 855.645.8028

yes - this is a call tracking number!

RingDNA.com

Contact Us

Free Trial

Demo



W W W . R I N G L E A D . C O M

