Solving the Biggest Sales Compensation Challenges

Insights from 450+ Finance, RevOps, and Sales Leaders

QUOTAPATH

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Introduction and Key Findings

Introduction

Sales compensation plans have primarily existed to drive sales reps to do what they do best: sell new revenue.

That is until this past year.

Unlike previous years when a “grow at all costs” mentality drove many SaaS companies, 2023’s market volatility introduced a shift in business mindsets. Primarily, one focused on efficient growth.

The first quarter in 2023 marked the slowest quarter for capital raised and deal count since 2017, leading to a 45% drop in capital. Only late in Q3 did the market start to rebound with a rise in initial public offerings (Instacart, Klaviyo) and steady increases in valuations.

As a result of the first half of the year, we saw organizations recalibrate from focusing on net new business to key performance indicators (KPIs) that show investors a healthy — *efficient* — business. Metrics that paint a clearer picture of how much a company is worth, such as gross revenue retention, customer lifetime value, and customer acquisition costs.

Despite this shift, efforts to match sales compensation plans to these new KPIs fell short.

> Companies desperate to increase the predictability of retention failed to put in compensation levers that promote just that.

Take multi-year contracts, for instance. Multi-year contracts are one of the most effective ways to secure predictable revenue since they reduce the chance of churn and give your team a longer runway to upsell and build adoption.

Almost every leader recognizes these benefits.

Yet throughout our conversations this year with customers, prospects, and across professional communities like Pavilion and RevOps Co-op, we saw a pattern of organizations leaving out incentives for their reps to sell multi-year deals. Why would your reps ask for a 3-year contract if it does not benefit them? A simple increase in the commission rate (for example, +3%) could fix that.

This spotlights a disconnect at the leadership level when designing and optimizing compensation plans for today's most important business objectives. And, it occurs most frequently between **Revenue Operations (RevOps), Finance, and Sales leadership.**

Consequently, this misalignment results in overly complicated compensation plans that lack cohesion. Then you end up with plans that fail to drive organizational goals and seller motivation, which is especially important when 33% of companies intend to grow their sales teams this year and increase compensation, according to Alexander Group.

33%

33% of companies intend to grow their sales teams this year and increase compensation

What happens next? Missed targets and quotas.

But it's not mutually exclusive.

Good comp plans can still lead to missed goals — and rep turnover — if companies have weak compensation management processes in place.

In this report, which surveyed more than 450 Finance, RevOps, and Sales professionals from the technology sector, we look into the impact of misaligned and poorly executed compensation plans.

The objectives of this report are to:

- Identify where the disconnect between Finance, RevOps, and Sales Leadership occurs
- Explore the challenges faced by organizations during the compensation plan design process
- Uncover the biggest holes when managing commissions
- Offer guidance to set up for success in 2024

Methodology

We conducted a global survey during the first half of 2023 targeting directors, VPs, and C-level executives within SaaS and tech-adjacent companies with over 100 employees.

We included RevOps, Finance, and Sales leaders from the United States and the United Kingdom.

In conducting the survey, we collaborated with Global Surveyz, an independent survey company.

Key Findings

From the survey results, we uncovered these four themes:

1 Revenue leaders resoundingly agree that sales compensation plans need improvement

For years, we've recognized that companies struggle with compensation processes, but we didn't anticipate 100% of revenue leaders admitting to needing improvements.

In this report, we found that **97%** of leaders have challenges with their compensation plans.

Meanwhile, **100%** admitted to having challenges with the compensation plan design process, and **100%** want to see improvements in the sales compensation management process.

Whether it's your first time building a comp plan, or your 500th time, leaders clearly agree that the compensation plan design and execution processes are flawed.

2 There is a disconnect between how RevOps, Finance, and Sales view the efficacy of compensation plans

When asked "To what extent do you feel that your compensation plan is aligned with the company's key business metrics?", only **1%** of RevOps leaders felt strongly that their plans did. But when it came to Finance, that confidence increased to 12%.

And just as striking, is a resounding lack of confidence that the plans meet the company's overall business goals.

3 Most sales representatives find their compensation plans difficult to understand

While an uneven level of confidence exists between Finance and RevOps, we also found that **78%** of revenue leaders admitted that their sales reps find it difficult to understand their compensation plans.

In fact, **60%** of reps take **3 to 6 months** to fully understand how they earn commissions under their compensation plan.

This suggests a pattern of overly complicated compensation plans. And when plans are more complex, you put revenue at risk because your reps can't figure out how to capitalize on their compensation structures.

Therefore, it's essential for organizations to create simpler, fairer, and more logical compensation plans that reps understand how to optimize so that it benefits them and the company as a result.

4 91% of organizations have less than 80% of their sales reps hitting quota

Our recommendation is that 80% of your team should achieve quota.

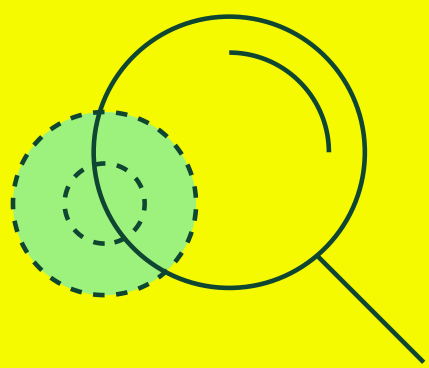
“This percentage promotes consistency across the entire team,” QuotaPath CEO and Co-Founder AJ Bruno said. In a down market, this consistency of performance and incoming revenue is especially important. But our survey revealed that this differs from reality.

Only 9% of companies are meeting that metric.

While the immediate reaction is to assume that the quota is too high, only 31% of leaders cited “unrealistic quotas” as the cause.

Instead, leaders attributed these misses to **misaligned sales activities (35%) and lack of motivation (32%)**, each of which can be improved through stronger and more targeted compensation plan design.

Survey Findings

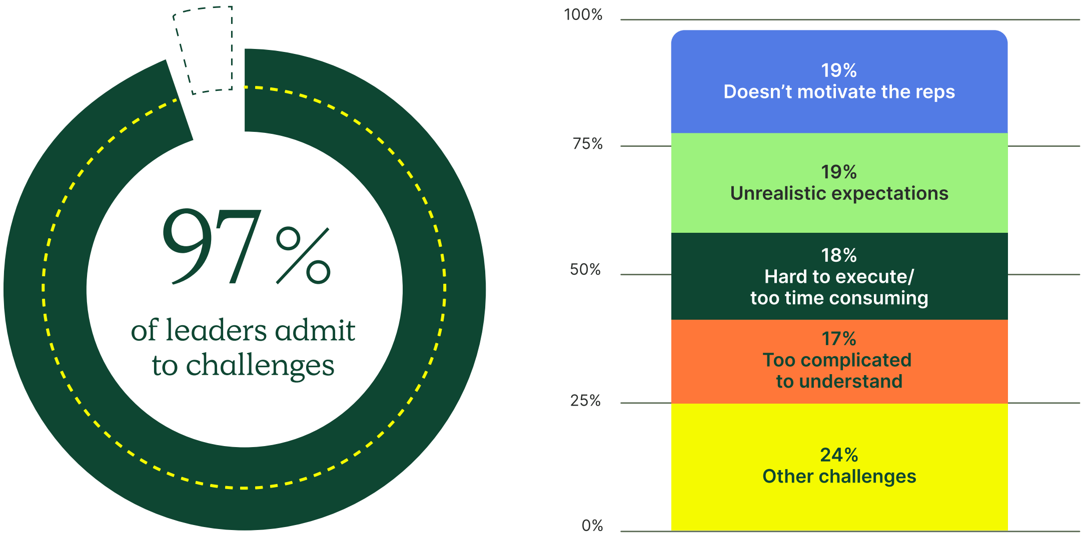


Biggest Challenges with Sales Compensation Plans and Design

Many of the issues leaders face with sales compensation start with the compensation structure and design process. Our first section explores the challenges revenue leaders face overall with their plans.

The second section of this report will dive into obstacles that leaders experience during the plan design process.

Identifying the Biggest Challenges with Sales Comp Plans



Since many of the compensation woes start with the plan structure, we first asked revenue leaders, **“What is the biggest challenge with your sales compensation plan.”**

A whopping 97% reported challenges, citing unrealistic expectations (19%), failure to motivate reps (19%), and too complex to execute well (18%) as the leading three challenges.

Leaders also noted the following obstacles:

- Plans that are too complicated for reps to understand (17%)
- Plans that fail to drive customer acquisition cost efficiency (CAC) (14%)
- Plans that are too easily obtained (10%)

So, what does this mean?

First, only a 5% difference separates these challenges, indicating that organizations are likely facing multiple challenges at once. This makes a lot of sense when you pair some of the challenges together.

For example, when your plans are too complex, it makes it harder for reps to understand how they are paid and for leaders to motivate them using sales compensation as a factor.

Additionally, unrealistic plans, such as those with unattainable quotas and inflated on-target earnings, will hurt motivation. Plus, plans that are too complex that require a serious uplift to calculate, track and pay commissions can threaten CAC and other measures of operational efficiencies.

How to avoid these challenges

Stick to a minimum of three compensation levers per comp plan to simplify it.

For an account executive plan, this might look like:

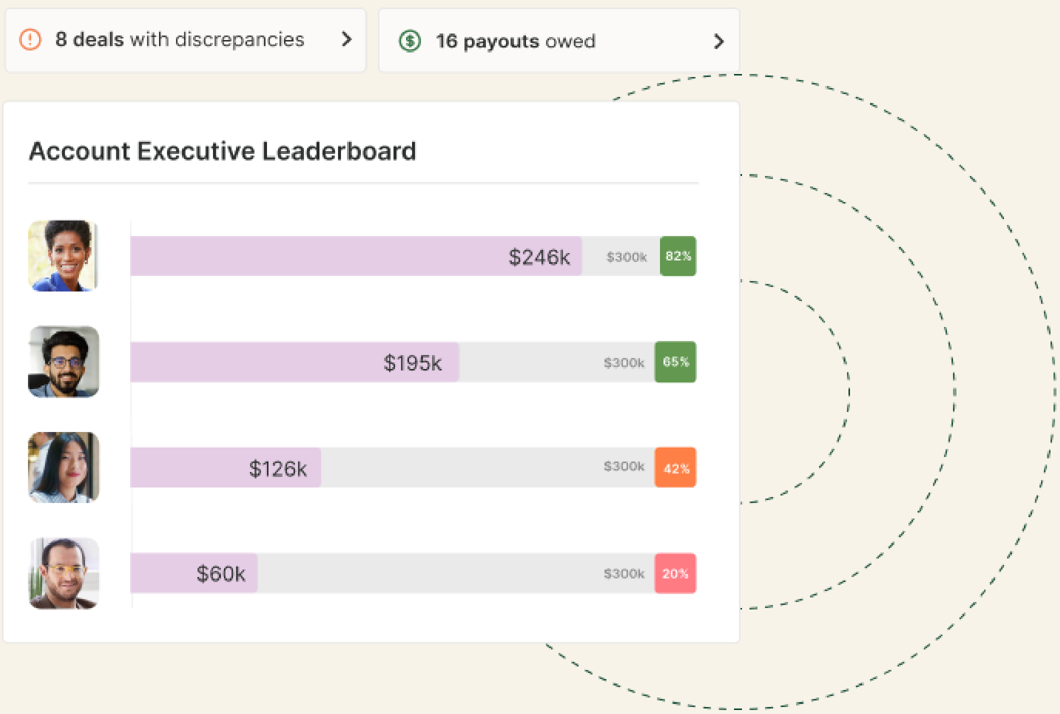
- 8% commission rate for every deal up to 80% of quota attainment
- Accelerator for deals between 80% and 100% of attainment of 10%
- Second accelerator of 12% for every deal over 100%

Meanwhile, your sales development rep might earn a single-rate bonus on qualified opportunities and a commission percentage from leads they generated that go on to close/won. In both instances, you avoid overcomplicating the structures by having too many mechanics, while providing multiple paths for the rep to earn more.

Address lack of motivation

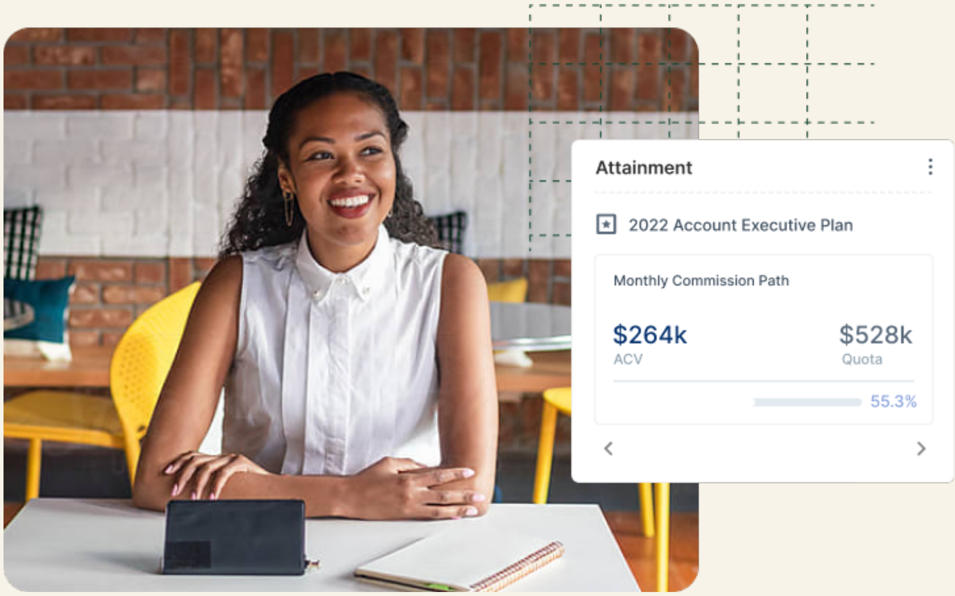
First, ensure your reps understand their commission and how they are paid. You can enlist the help of a survey or host regular opportunities for your reps to provide feedback and share with you what motivates them.

Another way to foster motivation is by giving your sellers access and visibility into their earnings. Translate their pipeline into potential commissions by using a tool like QuotaPath to show forecasted earnings and attainment through Team Leaderboards.



Ensure your plans are realistic

To check how realistic your quotas and OTEs are, use our free Quota:OTE ratio calculator. This will measure the health of your targets against your team's historical performance while also flagging if they're too easily attainable.



Optimize your plans to drive CAC

While there are numerous elements that factor into the CAC calculus, such as sales capacity, marketing spend, management overlay, and more, here are a few strategies to consider to increase the efficiency of your growth engine.

First, evaluate your Quota:OTE ratio. Best-in-class SaaS companies target a Quota:OTE ratio of 5x, meaning your sales reps should carry quotas that are five times what they earn to achieve their quotas.

If your plans are currently below this benchmark, ask yourself, if you remove or add a sales rep, how does that impact your team's ability to hit attainment goals? If most of your business is driven by marketing efforts and sourced from inbound channels, then plugging in additional sales reps may lead to lower overall attainment levels as there are now more reps dependent on the same lead supply.

Conversely, removing reps could increase overall attainment levels as there are now less reps competing for the same lead supply. This could allow you to increase the Quota:OTE ratios used in your plans and operate with a leaner, more efficient sales force. However, you need to evaluate if reducing your team size would also lead to a reduction in bandwidth below the level required to manage effective sales cycles.

You must find the right balance here and drill down on bottlenecks to identify opportunities for further improvement. Other items to consider when optimizing CAC include minimizing management overhead and incentivizing short deal cycles.

Remember, executives often measure CAC using the lens of LTV by creating a CAC:LTV ratio to measure the relationship between the lifetime value of a customer and the cost of acquiring that customer. This ratio helps you understand your customers' overall spending with your business based on how much you spend to earn them. You'll see whether you're outspending on acquisition or missing out on valuable opportunities because you don't spend enough.

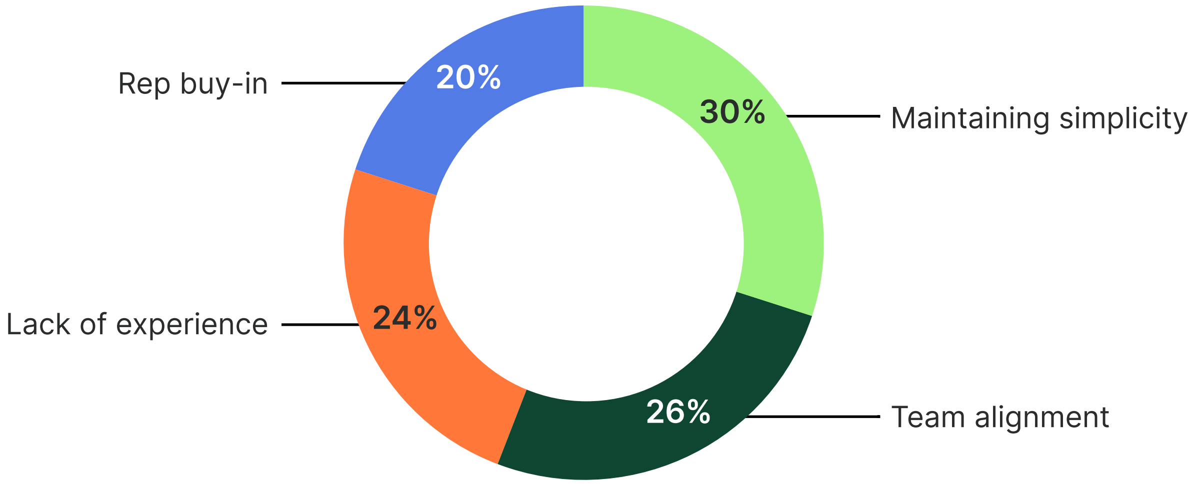
Consider these factors to optimize LTV:

- Reward reps for selling to your ideal customer profile (ICP)
- Be vigilant against churn (get ahead of it, use churn reasons to prioritize product roadmap, etc.)
- Incentivize multi-year agreements

Automate sales compensation management

If your plans are too complex to understand, they're likely too hard to manage. While automation can solve this, we recommend starting with a better plan design.

Biggest Challenges Faced During Sales Compensation Plan Design Process



Next, we dove into the compensation plan design process by asking revenue leaders to share the biggest obstacle they face during the making of a new compensation plan.

This process typically takes place in the last quarter of the year in preparation for the next fiscal year. It involves collaboration from RevOps, Sales, Finance, HR, and even the board for early-stage companies.

Every leader of our 450-plus surveyed reported at least one issue during the design process, including "maintaining simplicity" as the toughest setback **(30%)**. Over one quarter of leaders noted team alignment as a top challenge at **26%**.

Lack of experience designing plans **(24%)** marked their third biggest challenge.

Already, this survey unveils a pattern of overcomplicating plans, which makes it harder to align teams and get buy-in.

How to tell if your comp plan is too complex

- You cannot explain it to someone in less than 1 minute.
- It won't fit on a napkin when written out.
- Reps can't tell you how they earn commissions or when.
- Reps don't know how much their deals count toward quota or where they stand in their attainment progress.
- You keep adding SPIFs in hopes that'll fix it.
- It's tough to evaluate because you don't know how to evaluate its efficacy.

Customize your plan with a trusted template

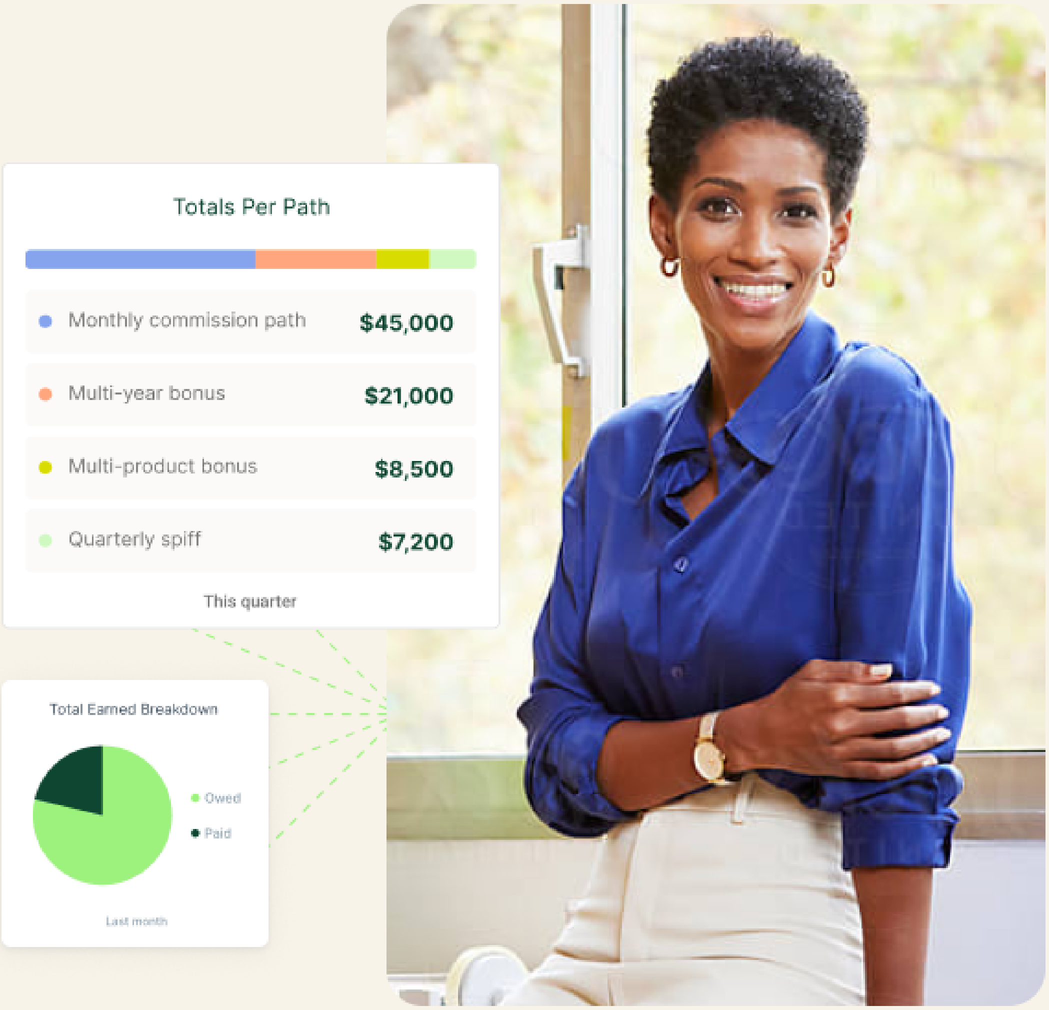
For help building alignment and designing compensation plans, visit our library of customizable templates.

Build a plan for free in QuotaPath

Most Needed Improvements in Sales Compensation Process

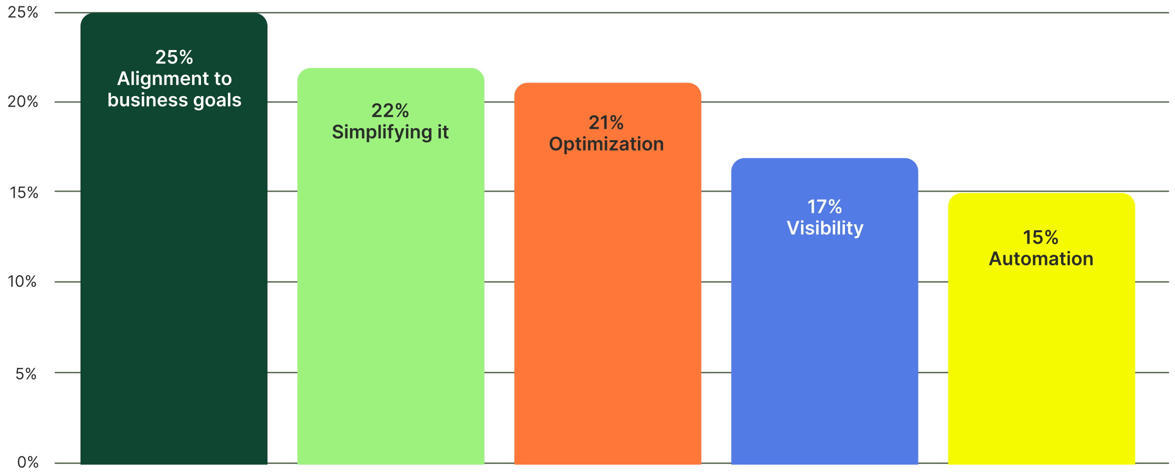
Building compensation plans is one thing, but executing it well presents its own series of challenges.

Let's dive into the roadblocks that jeopardize the execution of sales compensation plans.



Like the sales compensation plan design process, **100%** of our revenue leaders reported issues with the management of their sales compensation strategy.

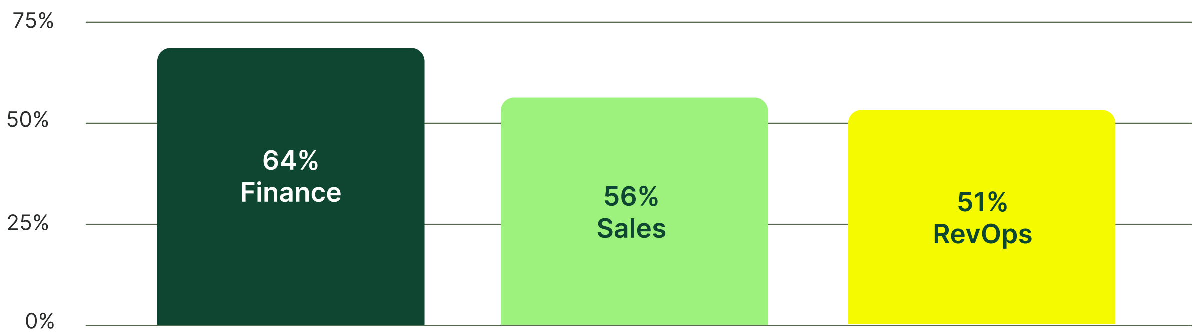
Most Needed Improvements in Sales Comp Management



The biggest challenge (and what we consider the foundation of a good compensation structure): maintaining plan alignment with business goals **(25%)**.This alignment is critically important because your compensation plans can be used to drive business goals.

For example, recent economic shifts have led companies to focus more on efficiency metrics, like gross profit margin. If a plan pays a higher commission rate on a less profitable product or service compared to another product, your plan is misaligned with your business's key focus.

Who Agrees that Compensation Plans are Aligned with Business Targets?



"You have to eliminate any disconnect between the performance of the business and the performance of your team," said QuotaPath Sr. Director of RevOps Ryan Milligan.

What's also worth noting is the discrepancies in levels of confidence regarding alignment between roles.

When we asked, "How often do your compensation plans contradict the goals of your business?" **39%** of revenue leaders admitted that their plans are not aligned.

And, nearly half **(49%)** of RevOps professionals reported that their sales compensation structures are "not fully aligned" with their business goals. In contrast, Finance had the most confidence, with **64%** reporting alignment.

This is concerning since the responsibility to build plans that align and drive business goals falls to RevOps.

"There's usually a collaboration on the plans between Sales, RevOps, and Finance, with Finance having the final approval and installing their own guard rails," said QuotaPath VP of Finance Ryan Macia.

> Since Finance typically has the final say, it makes sense that they are the most confident, whereas Sales and RevOps may have asked for something that Finance felt wasn't viable for the business.

How to ensure alignment:

Step 1: Set your goals or key business objectives first with your C-suite and Board. For those not in the room during the conversations, ensure you have a solid understanding of these once they are finalized.

Step 2: Create a compensation plan design committee that includes senior leadership from your revenue-generating teams.

Step 3: Interview reps to understand what they like and dislike about their past and existing compensation plans.

Step 4: Work with the committee to include compensation components across all revenue teams (renewals, new business, marketing, customer success) that support the goals from Step 1.

Example: Your main business focus for the year is gross revenue retention. As a result, you include the following mechanisms across your compensation plans for various roles.

Account executives: Higher commission rate on ideal customer profile (ICP) deals that are more likely to renew.

Sales development reps: Increased bonus for every ICP-qualified lead.

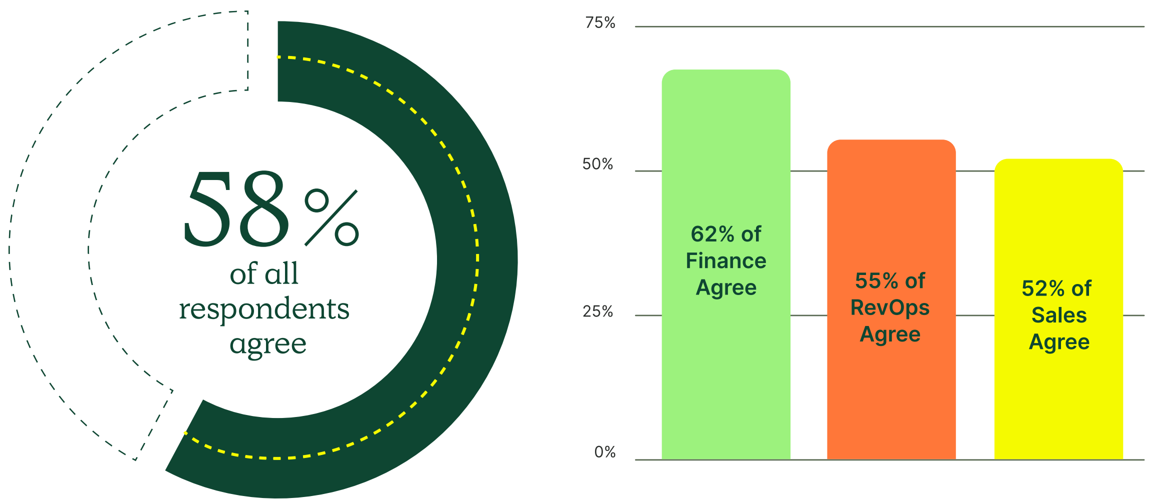
Account managers: SPIF on early renewals and multi-year contract conversions.

Customer success: Bonus for every perfect net promoter score post implementation.

Step 5: Pressure test the plan using last year's performance as well as the next year's goal to determine financial feasibility.

Step 6: Then, finalize for plan approval with Finance and Executive stakeholders.

Agreement that Compensation Plans Drive the Results of Key Business Metrics



After finding that **39%** of leaders said their sales compensation plans are misaligned with business metrics, we asked“ To what extent do you feel that your compensation plan is aligned with the company's key business metrics?”

Only **7%** strongly agreed. Meanwhile, **51%** somewhat agreed, but a discrepancy between roles reappeared.

For instance, **12%** of RevOps**,** **10%** of Sales**,** and just **5%** of Finance said their plans fail to drive the results of their key business metrics.

Notably, only **1%** of RevOps professionals strongly agreed.

One of the best ways to align plan designs with business metrics is by rallying around one key metric, or a north star metric. In doing so, you’ll mitigate the risk of implementing plans that only benefit the team rather than designing a plan that pushes the health of the team and the company.

Is your plan driving your North Star Metric?

- [ ] Did you hit your north star metric? If not, look into why.
- [ ] Ask yourself, is your compensation plan designed to encourage your north star metric? For example, do you offer bonuses for large renewals? Do you compensate on large upsells?
- [ ] Then, if it is, do your reps understand the “why” behind their comp plan construction?
- [ ] Identify the reps who are hitting the north star metrics and look into coaching and duplicating those efforts.
- [ ] Review the plan for red flags. When you add up all of the commission rates together for those who receive a payout from the deal, what is the total? Generally, this number should be less than 20-25% of the deal.

What is a North Star Metric?

A North Star Metric (NSM) is a single metric that captures the core value that your product delivers to customers, ideally in a single number.

It should be specific to your business and easy to understand and measure across your entire team.

A good North Star Metric:

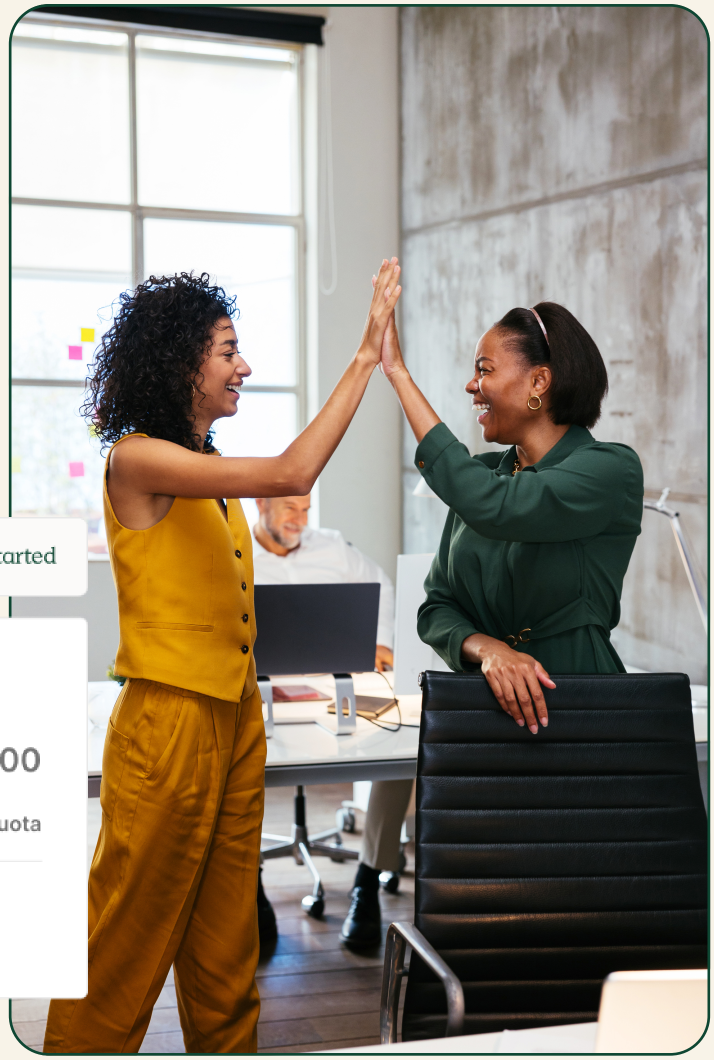
- Predicts long-term success
- Reflects customer value
- Is measurable
- Is accessible to all team members
- Is actionable

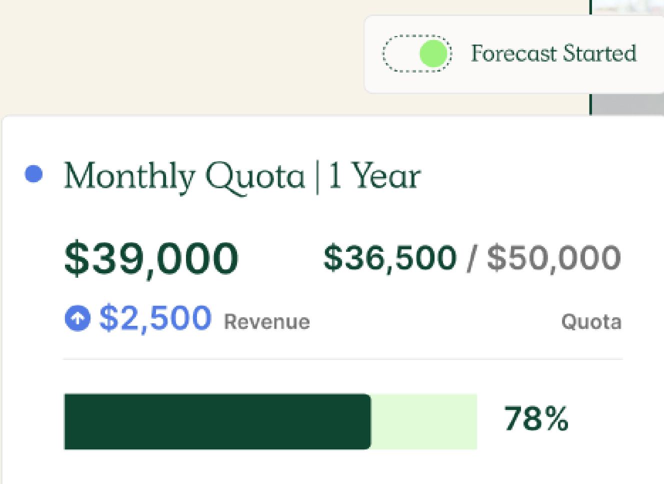
Examples of good North Star Metrics include:

- Number of active users
- Customer lifetime value (LTV)
- Monthly recurring revenue (MRR)
- Number of new customers acquired
- % of active annual recurring revenue (ARR)
- Gross revenue retention (GRR)
- LTV to customer acquisition cost (CAC) ratio
- Time spent using the product

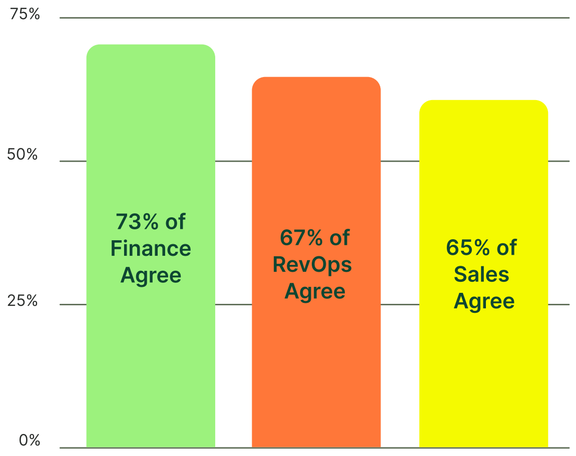
Why Sales Achieves or Misses Quotas and Targets

Every challenge that leaders referenced — misalignment to business goals, complexities of plans, failure to drive rep motivation — often results in missed quotas and targets.





70% of leaders believe their sales comp plans motivate teams. Is that good enough?



Previously in the report, 19% of leaders cited "doesn't motivate reps" as their biggest challenge with their comp plans (page 10).

So, we asked them directly to rank their level of confidence in how well their compensation plans motivate their sales team. The results revealed that **30%** of leaders lack confidence in this area (which may play into 91% of reps not hitting their quota targets, see page 27)

We find this concerning because motivating your sales team is one of the core key elements of a sales compensation plan, and when that's not happening, this indicates a flawed compensation strategy.

It's also worth noting the disconnect between how various professionals rank their confidence, with Finance again having the most confidence.

To recap, when we asked leaders to rank how well aligned their compensation plans are to their business goals, Finance had the most confidence, with 64% reporting alignment.

For this question, it was Finance once again with the most confidence, as 20% strongly agreed that their comp structures motivate reps, compared to 9% of RevOps and 5% of Sales.

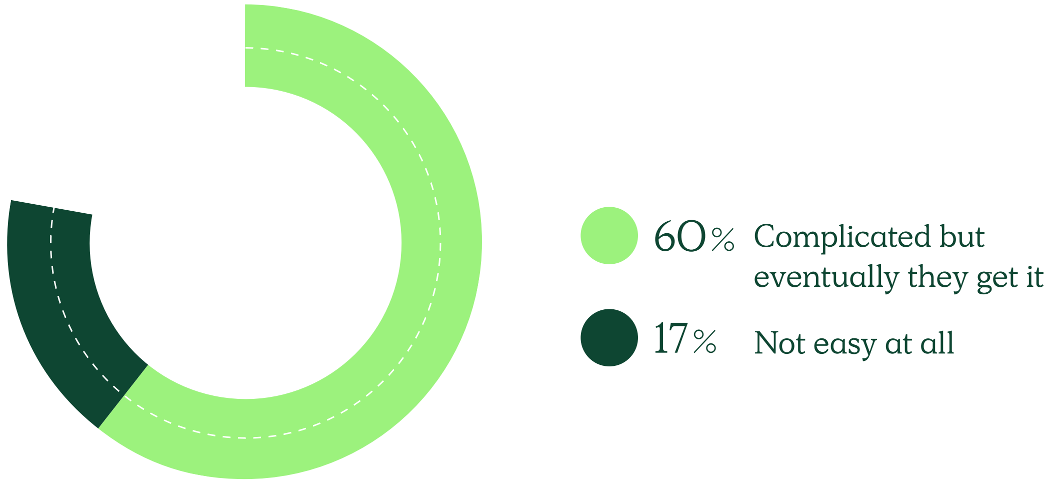
This is likely due to what our VP of Finance mentioned earlier in the report: Finance most often has final approval on the plans and is left to remove or shift items that are not financially viable that Sales and RevOps suggested. Every element taken out likely impacts the confidence RevOps and Sales has in their comp plans.

One way to avoid this is by including Finance early on and along the way for feedback, and by hosting mid-year checkins throughout the year for compensation strategy health checks.

How to ensure your comp plans motivate your reps:

- Host 1:1 with your reps to learn about what motivates them
- Incorporate their feedback in your design process
- Incentivize different behaviors
- Test future changes with SPIFs first before implementing in plan
- Reward overperformance
- Avoid demotivating levers if you can (commission floors or cliffs, decelerators, lack of accelerators)
- Use historical and industry data to ensure quotas and OTEs are fair
- Communicate plans, changes, and policies (clawback clauses, compensation agreements)
- Provide visibility into commissions and compensation plans (Try QuotaPath for free)
- Remove risks of inequities by standardizing comp plans and building fair territories and account scoring models that evenly distribute opportunity

Sales Reps' Understanding of Their Commissions Calculation



How successful your comp plan is at motivating your reps depends on a number of factors, but a leading indicator comes from your reps' understanding of their plan components.

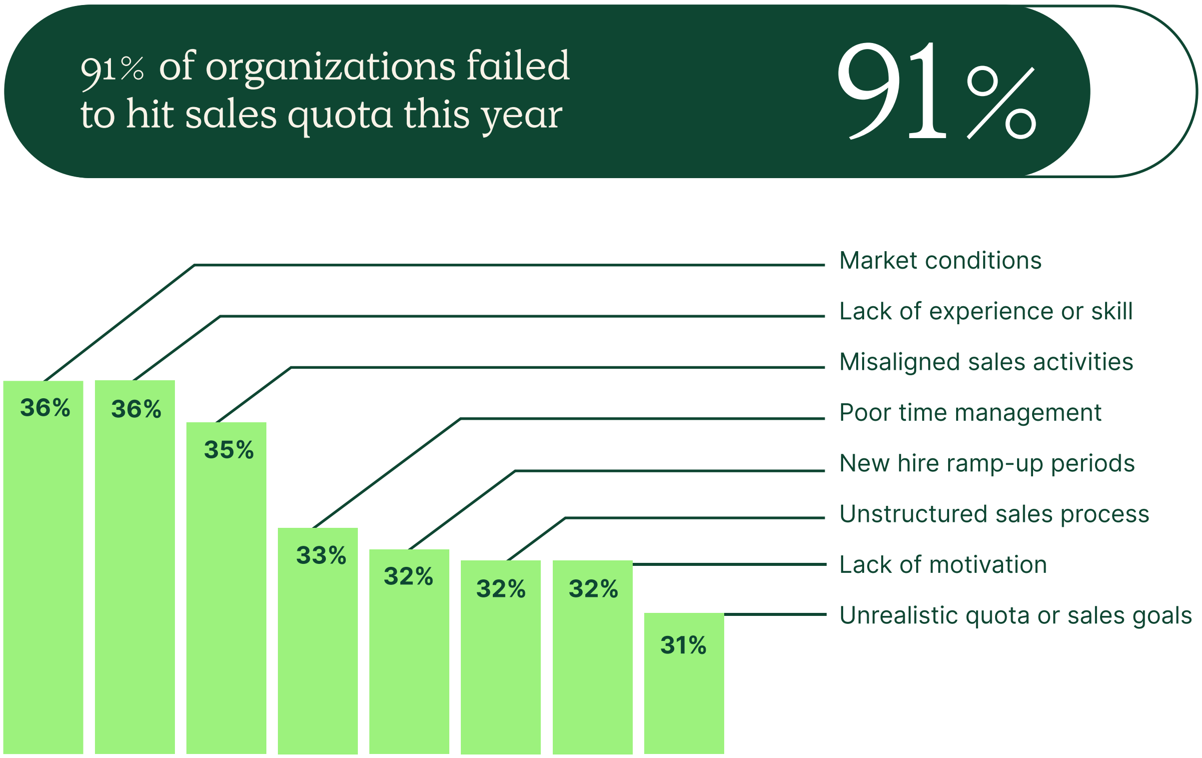
When reps know how to optimize their earnings, like selling the products, contracts, or types of deals with the highest commission rates or bonuses, you're motivating their selling behaviors. With that in mind, we followed the previous question with, **"How easy is it for your sales reps to understand how their commissions are calculated?"**

77% of revenue leaders said their reps find it difficult to understand their compensation plans. In fact, the data showed that **60%** of reps take **3 to 6 months** to fully understand how they earn variable pay from their comp plans. Just 22% of leaders said it was easy for reps to understand their compensation structure.

When it takes reps that long to understand their plans, you're leaving revenue up for grabs. If your compensation plan pays higher commission rates on specific accounts or contract terms because those are most profitable to the business, but your rep doesn't understand that, then they are likely to sell what they're accustomed to selling versus what makes them and the business the most money.

Simpler is better for you and the rep.

Quota Attainment + Main Reasons for Missing Target



Question allowed more than one answer and as a result, percentages will add up to more than 100%

What happens when it takes teams 3 to 6 months to make sense of their comp plans? Missed targets.

We found that **91%** of organizations are failing to hit sales quota expectations.

A SaaS rule of thumb is that 80% of your sales team should hit quota, but our report showed that only 9% of the 450+ companies surveyed meet that metric.

Are quotas too high? For 31% of leaders, yes, this was the case.

But misaligned sales activities **(35%)** and lack of motivation **(32%)** ranked higher, which can be remedied through targeted compensation plan adjustments.

How to motivate sales activities that align with your company goals

- ✓ Do the math and work backward
- ✓ Ask yourself, "would you want to have this compensation plan?"
- ✓ Evaluate close rates and which types of deals are most likely to close and renew
- ✓ Identify how many "qualified" opportunities reps need each month to hit quota
- ✓ Review touchpoint averages from your highest performing reps and set daily, weekly, and/or monthly outreach goals (email, LinkedIn messages, phone calls, etc.)
- ✓ Incentivize sales activities using your comp plan, SPIFs, team competitions, recognitions, and more

  Examples:

  - Compensate a higher commission rate on outbound generated deals
  - Offer a weekly prize for outbound sourced demos
  - Pay on outbound demos set
  - Bonus for outbound milestones (number of outbound calls, emails, or meetings per/week or month)
  - Tie the commission rate on deals closed to the number of outbound-sourced opportunities (Ex: if a rep secures three outbound demos this month, on any deal they close within the month, they earn an extra 3%)
  - Set an outbound sales demo, get an extra inbound demo (applicable in round-robin demo distribution models)
  - Team-based incentives (Team earns a bonus or another reward if they collectively achieve a certain outbound target)

How Poor Compensation Management Impacts Rep Turnover

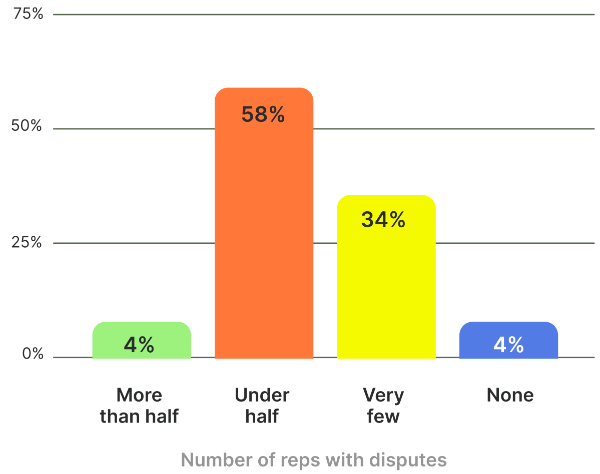
Your reps won't be happy if they're missing quotas, but one of the fastest ways to lose a rep is to mess up their compensation.

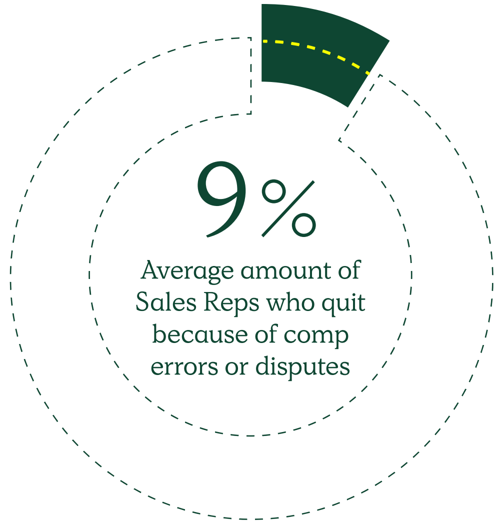
Our last section looks into the correlation between commission disputes and reps quitting.

Poor compensation management can be costly.

Almost a tenth of reps quit due to comp errors. But over 50% have had at least one commission dispute.

Percentage of companies with reps reporting at least one commission dispute per year





All of this leads to our second to last question, **how many reps have quit over commission mismanagement?** 9%. That's almost a tenth of rep turnover.

"The cost of hiring a new salesperson isn't terribly expensive, but the most expensive seat on the sales floor is an empty seat," said QuotaPath Chief of Staff Graham Collins.

For instance, if a leader takes an average of 30 days to find and hire a new salesperson, add 90 days of ramp time before they can start selling deals.

"That's four months of sales lost," said Graham. "So, if your rep's quota is 5x that of their on-target earnings, the company is losing 1.66x the salesperson's OTE, or 3x their salary."

Under that logic, a rep who earns a $50K base salary costs the company $150K. That's $150K that could be avoided with improvements to compensation management.

We asked our last question to understand how common earnings errors and disputes occur. Our results revealed that, on average, **22%** of sales reps have at least one commission dispute yearly.

How to avoid commission disputes using QuotaPath

- Provide rep visibility into real-time earnings, compensation plans, and commission calculations
- Enable in-app communication between reps and commission managers to flag, track, and communicate discrepancies and disputes
- Surface priority tasks in a holistic dashboard to accelerate resolution
- Organize commission data and insights to streamline deal lookups
- Give your reps a go-to view for current, forecasted, paid, and to-be-paid commission information to foster compensation ownership and motivation

Talk to our Sales Team

Conclusion

The survey findings suggest the need for a major overhaul of sales compensation plans and processes.

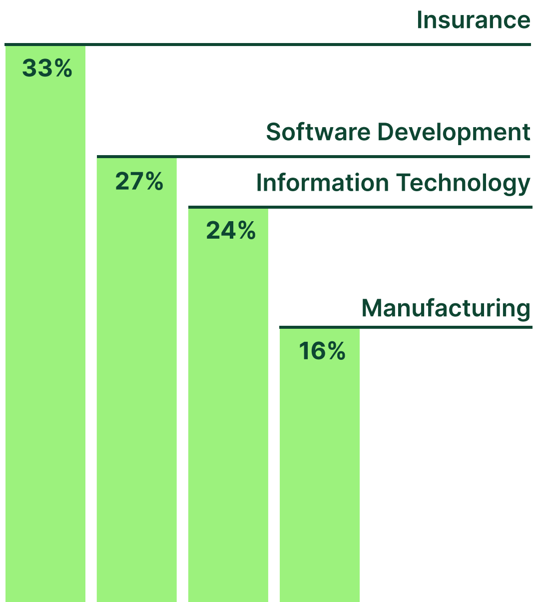
Compensation plans need to be more aligned with the company's goals and easier to understand.

This will ensure the plans motivate the right selling behaviors to drive KPIs and that management of compensation processes improves.

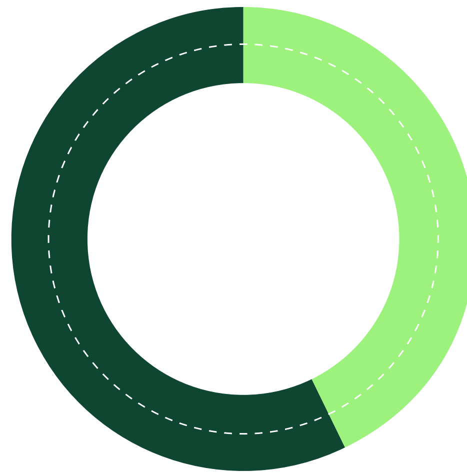
By making these changes, companies can improve their sales performance and achieve their revenue goals.

Survey Demographics

Industry



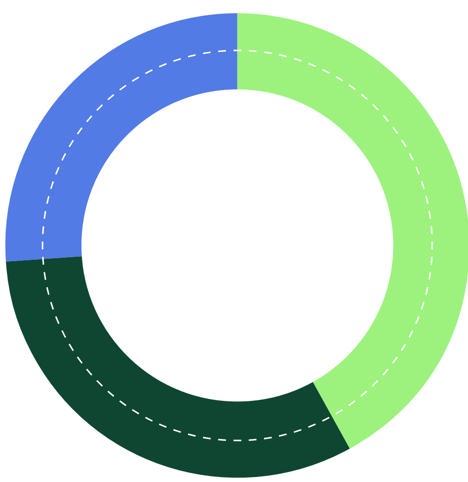
Company Size



43% 25-100 people

57% 100-500 people

Job Seniority

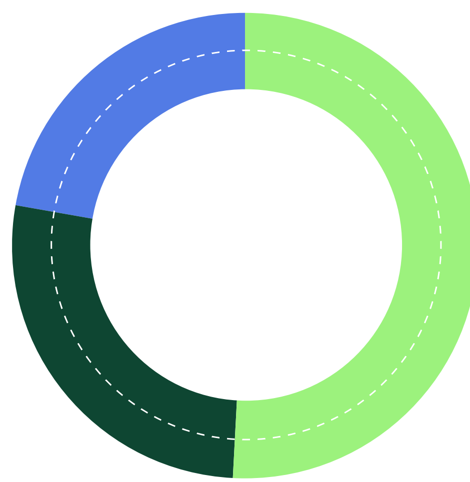


42% VP/Head of Department

32% Director

26% C-suite Executive

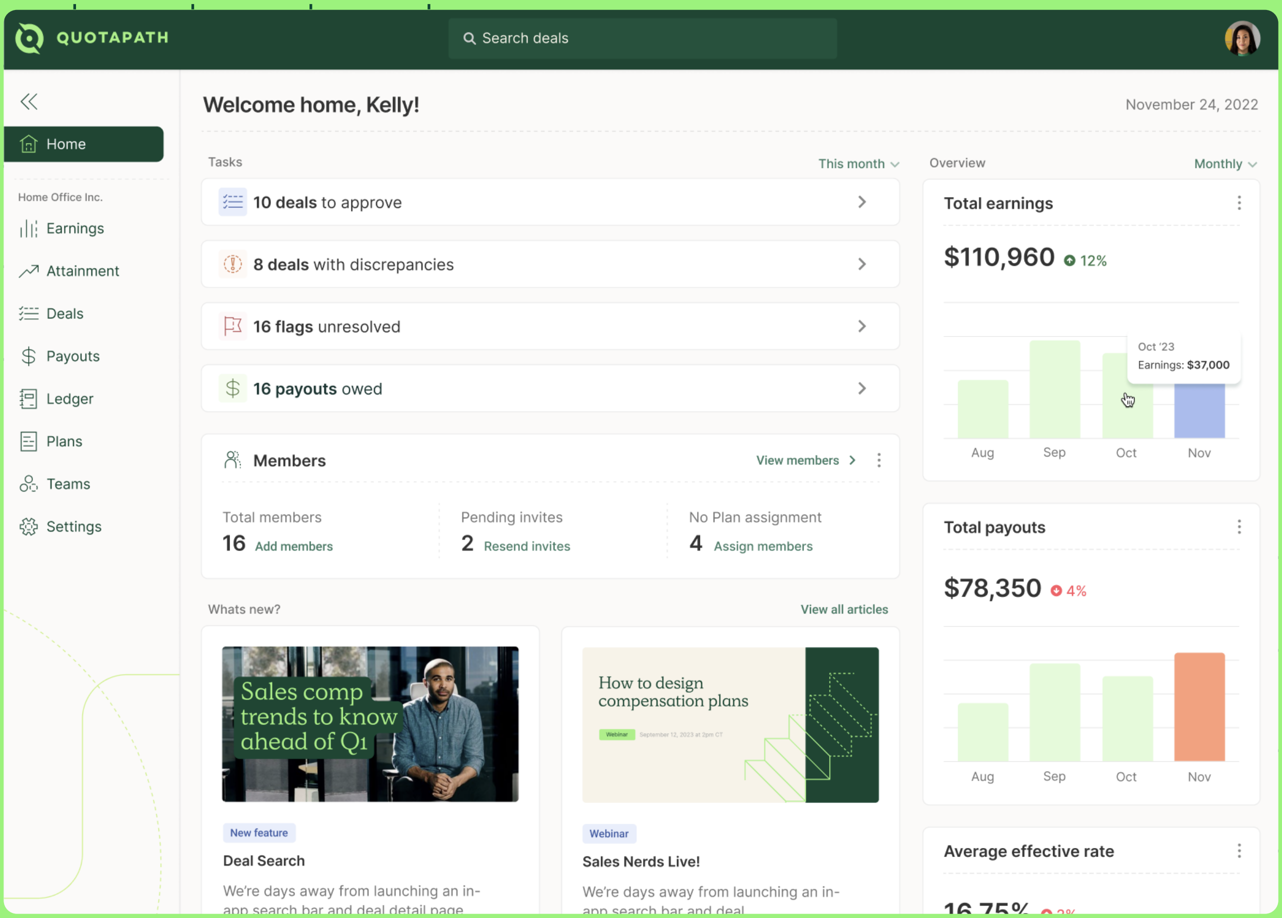
Job Function



51% Finance

27% RevOps

22% Sales



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