Setting Sales Quota and Compensation

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My experience in Quota and Compensation Setting

Why is it important to set good sales comp & quotas

Quotas inform capacity and revenue

Accurate quotas inform financial planning, which in turn informs budgeting and operational planning.

They align sales behaviors with business success
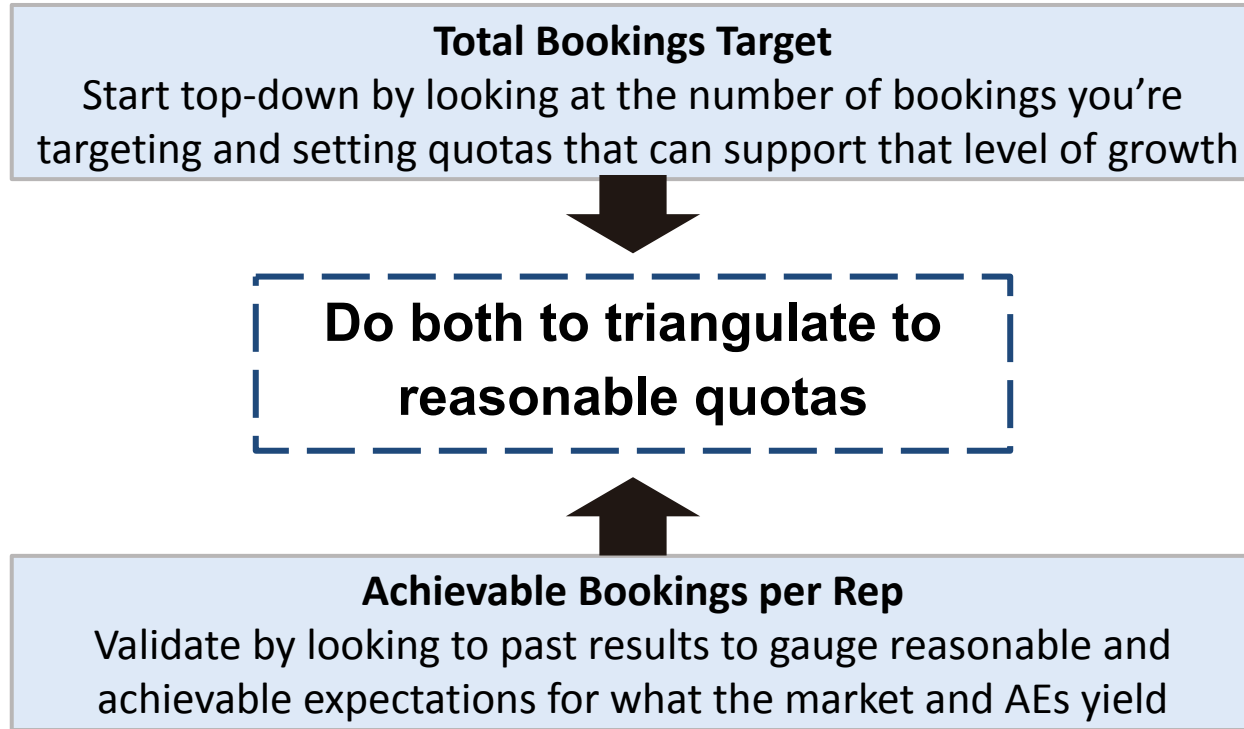
Sales compensation is the primary incentive you can use to align sales behavior with business success.
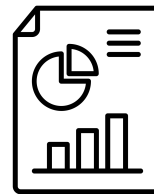
Sales quotas drive accountability from sales

They create an agreement between AEs and the organization about what constitutes success expectation.

Should you start setting quotas top-down vs. bottom-up?

Total Bookings Target
Start top-down by looking at the number of bookings you're targeting and setting quotas that can support that level of growth

Do both to triangulate to reasonable quotas

Achievable Bookings per Rep
Validate by looking to past results to gauge reasonable and achievable expectations for what the market and AEs yield
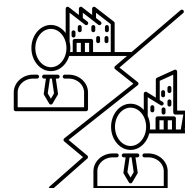
How do you decide what's achievable per rep?

Use your early salespeople as a baseline

Look at your historical performance data

Research the state of the market

Compare to your competitors

What's the typical range of Quota:OTE and how much does that vary?

Typically, quota is ~3x OTE – it depends on average sales price and the effort involved in making a sale. Most SaaS companies with a typical 70%+ margin land around 3x, but it can reach 4x on the high end or 2x on the low end.

Seller Type	Quota	# of Deals	ASP	Salary	OTE	Multiple
Enterprise	$1,000,000	24	$41,667	$150,000	$300,000	3.33
Midmarket	$750,000	30	$25,000	$120,000	$240,000	3.13
SMB	$500,000	36	$13,889	$80,000	$160,000	3.13

What about...

Reps with different quotas

At most smaller companies, it's fairest to give all reps the same quota

Unless you have:

- Unequal territories
- Sellers in greenfield markets

Ramping reps

The quota will be lower, but:

- Target incentive comp should also be lower
- Use other KPIs to hold ramping reps accountable

Sales Leaders

Leaders should have a quota that is:

- Equal to their cumulative team quota with a 10-15% haircut
- A 50-50 base/incentive mix

Should you use accelerators and how should you structure them?

➔ Use accelerators in tranches of quota fulfillment to drive overachievement

➔ Use earned commission to figure out your accelerators for your company

➔ Think hard about whether you want to exceed 1.3x

➔ As your company grows, you'll want to bring that big accelerators down, because it hurts financially over time

Example acceleration plan

Percentage Quota Reached	Acceleration Factor
0 - 75%	Modest Decelerator
75% - 100%	Accelerate 1x
100% - 110%	Accelerate 1.2x
110% - 125%	Accelerate 1.3x
150% - 200%	Accelerate 1.5x - 2x
~ 300%	Decelerate back to 1x

# What guardrails are available to ensure compensation matches the value that AEs bring in?

<u>Do</u>

✅ Use a decelerator at the high end of your commission

✅ Have discount limitations and approvals

✅ Use a clawback policy will protect you from quick-churn sales

✅ Write a lookback policy to align revenue received with comp

<u>Don't</u>

❌ Pay the total comp from a long deal at signing

❌ Write a lot of exceptions

What's the best way to communicate quotas to reps?
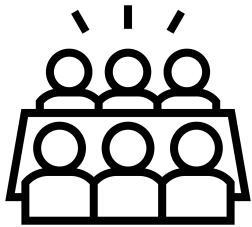
Announce at the sales kickoff meeting	Build a commission calculator	Create a bookings policy
Show the comp plan, quotas, and accelerators in at the beginning of the fiscal year.	This will motivate reps and show them how much they'll receive based on their deals.	These terms and conditions dictate what's allowed and not, clawbacks, what the accelerators are, etc.

How do you track commissions?
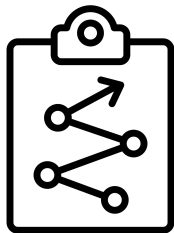
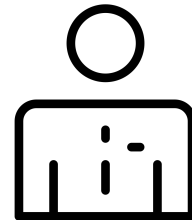| Track bookings in your CRM	Track cash outlays and invoices paid in your finance system	Commission tools are helpful, but require admin

How can you incentivizing desired sales behavior with comp plans?

Align your comp plan with your strategy

- Tie compensation to your KPIS

- Utilize revenue multipliers

- Incentivize up front cash

Highlight successful reps

- Create the Presidents Club

- Give high performers special recognition (e.g. cash rewards)

Common mistakes and pitfalls

➔ **Watch out for overcomplication - if you're under $10M in revenue, keep it very simple**

➔ **Be careful paying out sales incentives before you have the cash**

➔ **Watch out for creating unattainable quotas don't forget to adjust quotas if they are unattainable**