

MODERN SALES PROS

+

Varicent
CONCERT



How to Create Better Comp Plans in 2021

Improving Comp Plans Through the
Science and Psychology of Performance



ABOUT MODERN SALES PROS

What is the Modern Sales Pro Community? Modern Sales requires a high-rigor, highly analytical, technically competent, and numerate approach to selling, in order to support high velocity, high complexity sales opportunities.

Modern Sales Pros (MSP) is the world's largest peer education community for sales operations, sales enablement, sales engineering, and leadership professionals.

Founded in 2015 in San Francisco, the community now totals more than 18,000 sales professionals from all over the world. Each and every new

member is vetted through an application process.

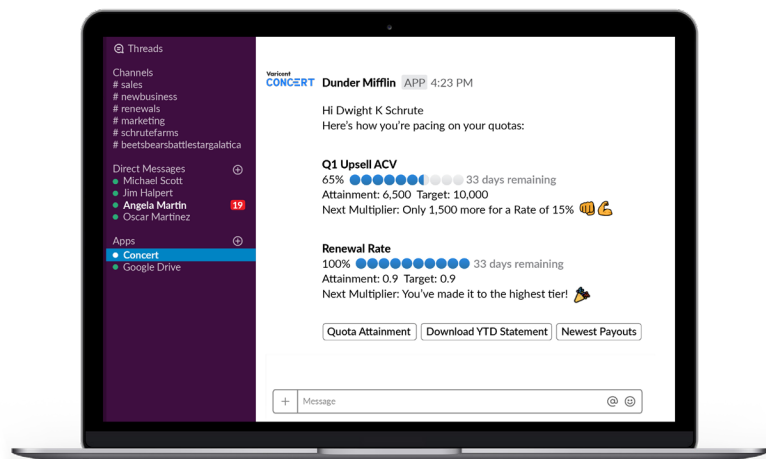
We are committed to building a community that represents the true variety of backgrounds, perspectives, and skills in revenue leadership today. The more inclusive we are, the better the community is, and the more we learn.

Varicent CONCERT

ABOUT VARICENT CONCERT

Varicent Concert is the smarter commission software built to increase sales productivity. We're not just a better spreadsheet, we have re-invented what commission software should be. Whether it's real-time commission tracking for reps in Slack, no formula and no code setup, or turnkey accounting, we've always been ahead of the curve.

We're now taking it a step further. Our team has worked with neuroscientists and behavioral psychologists to understand how compensation drives performance, and we have built the first platform driven plan and quota recommendations engine based on your data.



To learn more about our products or get more tips to commission smarter, go to concertfinance.com

COMP PLANNING IS HARDER THAN EVER

The pandemic has dramatically changed the way people buy. Sales teams are selling in the face of tremendous customer uncertainty. The budget freezes, rapidly shifting customer priorities, and changing stakeholders all culminate in making quota attainment and reaching compensation targets more challenging than ever.

When we created the annual MSP + Concert State of Sales Comp survey in 2019, we centered our analysis around comp plan satisfaction scores (a 1–5 score on how likely you are to recommend your comp plan to a peer.)

In 2019, we were surprised to see that, overall, scores for Sales Development, Account Executive, and Customer Service plans were all surprisingly low—and very few people ranked their plan as a 5. Incenting the right things, even at the best of times, was a challenging exercise.

In 2020, satisfaction scores across the board have gone down fairly dramatically. This is in line with what we expected as we went into this year’s survey. Most plans over-index outcomes (contract signature, closed won.) When those outcomes are less predictable or harder to achieve, attainment

goes down, compensation goes down, and employee retention goes down.

In order to test this hypothesis, you will see that our benchmarks now include average quota attainment by role, and additional insights into how to set quotas.

The new normal is not just face masks and Zoom shirts. The new normal changes how we think about hitting our numbers. **Improving sales productivity is the most important challenge for sales and ops leaders to solve, and your comp plans are the most significant tool to do so in your kit.**

The rest of the report will cover the plan structures, quota and reporting tips that will drive your team’s productivity and happiness in 2021. Happy budgeting!

We asked: On a scale of 1 through 5, how likely are you to recommend this comp plan to a peer?



HOW TO CREATE A BETTER COMP PLAN IN 2021

Increase sales productivity with a commission plan rooted in the science and psychology of incentives:

► **PLAN STRUCTURE** (page 4)

High performing plans have 3 key elements: quotas/targets to focus reps, flat rate incentives to emphasize autonomy, and process-based incentives to reinforce behaviors.

Give your team targets or quotas.

Across the board, plans perform better if reps have specific targets, versus just getting flat payout rates.

Pay on pipeline activities.

Pay on what your rep controls, not just the outcomes they achieve. Paying on activities (whether a rep ultimately wins or loses) isn't just for SDRs. It's an effective part of AE and CS plans, as well!

Add at least one kicker.

Give a flat-rate incentive for negotiated terms such as upfront billing, multiyear term, or new product. Kickers emphasize and reward listening and negotiation skills.

► **QUOTAS** (page 5)

Reps perform best when they have targets that they can meaningfully engage with. Quotas that are too hard or too easy reduce performance.

80% of your team should hit quota.

Stretch targets don't actually help focus or motivate anyone. Create a world where people should attain quota and should win, and help reps refine their processes.

Set 2 accelerator targets below quota and another 1-2 above quota.

Give reps a pathway to quota, and something to aim for after quota attainment.

► **REPORTING** (page 6)


Reporting should help reps stay focused on their pipeline and view ways to hit their goals. The best reporting is real-time, individual, and passive.

Give real-time compensation reporting to reps.

Faster feedback makes reps more focused on working their pipeline and eliminates reps' manual side spreadsheets!

Turn off the sales leaderboard.

People like leaderboards, but research shows that stack-rank leaderboards don't work. Make feedback more actionable and focus your reps on individual or team targets.

The rest of the report will help you understand these recommendations and the benchmark data from the survey. 

THE RIGHT PLAN STRUCTURE

The highest performing plans have three key elements: quotas/targets to focus rep behavior, flat rate incentives to emphasize autonomy, and process-based incentives to reinforce learning.

1. IF YOU HAVE NOT ALREADY, SET A QUOTA

“If you can’t measure it,
you can’t improve it.”

Peter Drucker

Plans that have quotas massively outperform plans without quotas in the survey. The reason, it turns out, is entirely scientific. Measuring against targets gives us focus on how to translate that abstract target (“sell our product to this prospect”) to actionable tactics (“get the customer from discovery to demo.”)

A quota gives your team the subconscious cue to think about the specific sets of actions they should be taking with their prospects. Before you go and set lofty stretch targets for your team, check out the next page to see the right way to set quota.

2. PAY ON BEHAVIORS LEADING TO QUOTA

The highest concentration of 4 and 5 satisfaction scores were for plans that paid for the right selling behaviors, win or lose. We recommend adding incentives for leading indicators/behaviors to every SDR, AE, and CS comp plan.

Incentives trigger reward-based-learning neural pathways. Logically, it makes sense. You are giving the incentive as a form of positive feedback. The problem is that, most of the time, the right selling behaviors don’t result in a win! Paying on an outcome alone, such as closed-won business, manages the company risk well, but does nothing to help reinforce the right selling behaviors.

In fact, there’s a reasonable amount of evidence that paying only on outcomes could actually harm sales productivity. When a prospect tells a rep “no”, it is objectively negative feedback. That negative feedback, when left unchecked, causes us to subconsciously re-write the process.

All the process documents, training, and coaching you are investing in are effectively eliminated by this negative feedback.

Rewarding a rep for the right behaviors, whether win or lose, gives positive feedback to counteract the negative feedback from your prospect, and helps the rep run their pipeline using data, versus anecdote.

3. ADD AT LEAST ONE KICKER

Kickers are flat-rate payouts that incent a “feature” of a deal, such as upfront billing, multiyear term, or new product attachment. The survey data also clearly revealed that plans with kickers had higher satisfaction scores than plans without kickers, and it fits with motivation theory.

No one likes feeling like a cog in the machine. Kickers give reps autonomy over their process by highlighting levers and boundaries in which a rep is free to use their personal style and creativity to drive more value.

More than half of the respondents surveyed used plans with kickers for their SDRs and AEs. Common kickers include:



Multiple stakeholders attending a meeting



Upfront payment terms



Multiyear deals

QUOTAS

Reps perform best when they have targets that they can meaningfully engage with. Quotas that are too hard or too easy reduce performance.

SETTING SMARTER QUOTAS AND TARGETS

The most common marathon finish time is 3 hours and 59 minutes; not 4:00, not 4:01. There's even a 40% drop off in performance between 3:59 and 4:01. This happens at every milestone, a peak right before and a drop off right after. **People are driven to hit targets.**

Around 4 tiers was the sweet spot in the survey, with the highest satisfaction scores. AE plans were ranked 26% higher when they had 4 accelerators tiers and targets, instead of just one. SDR and CS plans showed similar results.

In today's uncertain environment, we believe that accelerator tiers below 100% have become even more important. Plans with 2 accelerator tiers below 100% of quota lead to the highest satisfaction scores, with AE, CS, and SDR plans each reporting a score that was between 25% higher than those without tiers below 100% of quota.

THE PSYCHOLOGY BEHIND QUOTAS AND TARGETS

We perceive the difficulty of targets through four lenses. By minimizing the distance in any or all of these lenses, we are more likely to translate goals into action.



Spatial Distance: Set closer and lower targets. When a target is more clear, **our brains begin to translate targets into tactics.**



Temporal Distance: Changing tactics by setting shorter time periods will ultimately help reps convert abstract goals into action. Updating targets from annual cycles to quarterly and quarterly cycles to monthly will have a significant impact on target attainment.



Experiential Distance: You can convert a behavior from a past action to get the results you need now. If there was no prior achievement, this is the perfect opportunity to set accelerator tiers. Setting tiers that require reps to close just one more deal (based on your ASV) will give them the practice they need to hit their targets.



Social Distance: Set targets that reps are achieving and report on team performance. When reps know that 75-90% of their team is hitting quota, **they know their target is relevant and attainable.**

REDEFINE WHAT IT MEANS TO HAVE A GOOD PLAN.

Our data shows us that reps aren't attaining their targets and that there are substantial drop-offs in reaching quota attainment. Respondents with the highest SDR satisfaction scores had an average of only 55% of reps reaching quota. This tells us that sales teams need to redefine what it means to have a good plan. We believe that at least **80% of teams should be hitting 100% quota.**

To achieve more success, we recommend shorter time periods, setting more accelerator targets under 100% of target, and/or reducing quota. **These changes have shown performance improvements of 15%+.** When a company of 30 reps was struggling to attain a 50K quota, our algorithm suggested dropping to 42.5K. In return, rep performance increased 15% and the company saw an ARR of \$1MM just by making the target more achievable.

Don't let your comp plans cause your attainment to look a certain way. Give your team enough time to digest new targets and when performance stabilizes, review and re-calibrate how you're setting quota. When teams are engaged and close to reaching quota, they're far more likely to achieve their targets.

REPORTING

The best performing plans follow timing and method of feedback than the incentive itself. Reporting should help reps stay focused on their pipeline and help them view ways to hit their goals. The best reporting is real-time, individual, and passive.

GIVE REAL-TIME COMPENSATION REPORTING TO REPS.

The highest average satisfaction scores across all roles **came from companies who reported to reps in “real-time”**. In Sales, feedback should allow reps to see how they’re pacing against their goals so that they can prioritize their pipeline appropriately.

In 2019, just over 10% of respondents were reporting in “real-time”. In the past year, this number significantly jumped, because of more flexible cost effective offerings in the market (like Concert!). **Nearly 20% of respondents used “real-time” reporting for their AEs.**

We continued to see that satisfaction scores increased dramatically from Annual to Quarterly, again from Quarterly to Monthly, and again, from Monthly to Real-Time because those plans are giving performance feedback that can be used within the period. Better reporting gives reps autonomy to balance quota and customer needs.

Anecdotally, we’ve also heard that “real-time” commission tracking also allows reps to focus on their work, and avoid the distraction of “shadow tracking spreadsheets.”

TURN OFF THE SALES LEADERBOARD.

People generally like using sales leaderboards, but research says it just doesn’t work. Science shows us that sales leaderboards can significantly lower performance across all levels of your team. The fundamental premise of the leaderboard is rooted in social comparison theory. Social comparison theory examines who we compare ourselves to, and the effect of that comparison.

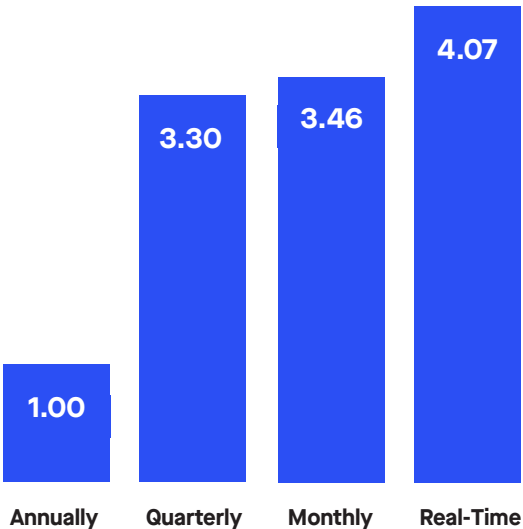
Comparisons are important in shaping our motivation, self-image, and performance.

The effects of social comparison broadly fall into two categories, the contrast effect (upward comparison makes us feel and perform worse) and the assimilation effect (upward comparisons give us the inspiration to feel and perform better.)

Most people use leaderboards because we will strive for the top. It turns out, however, that humans are pre-wired for the contrast effect, so **sales leaderboards make most people less motivated and perform worse.**

We saw this trend in our responses, too. If a company did not use a leaderboard, about 46% of their SDR team would reach quota, while only 39% of a company’s SDR team hit their quota if they used a leaderboard.

AE AVERAGE SATISFACTION SCORE



SALES DEVELOPMENT SURVEY BENCHMARKS

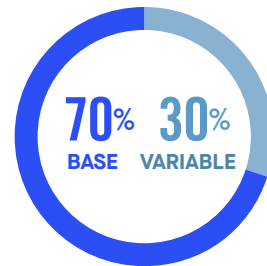
► How likely are you to recommend your SDR comp plan to a peer at another company?



962

SALES DEV PAYEES AND
64 COMPANY RESPONDENTS

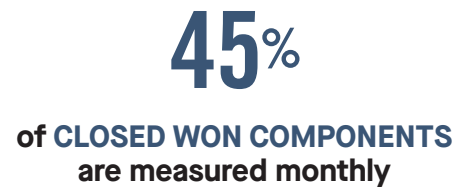
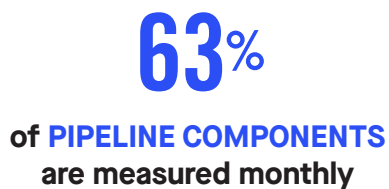
► BASE:VARIABLE MIX



► QUOTA METRICS



► QUOTA PERIOD



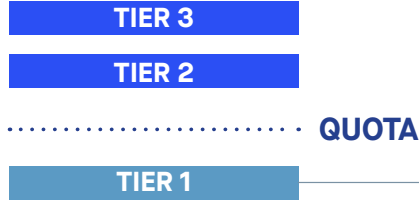
SALES DEVELOPMENT SURVEY BENCHMARKS

▶ ACCELERATOR TIER STRUCTURE

On average, people have

3 TIERS

and 1 of those tiers are under quota.

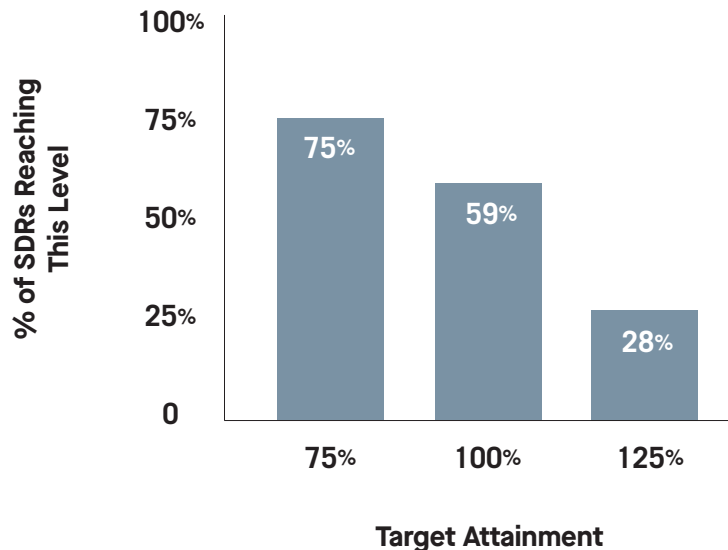


Varicent Concert has seen teams with more tiers below quota have a higher % of quota achievement

▶ PAYMENT TRIGGERED



▶ QUOTA ATTAINMENT



ACCOUNT EXECUTIVE SURVEY BENCHMARKS

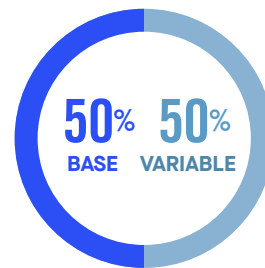
► How likely are you to recommend your AE comp plan to a peer at another company?



6,205

ACCOUNT EXECUTIVE PAYEES AND 66 COMPANY RESPONDENTS

► BASE:VARIABLE MIX



► QUOTA METRICS



100% OF PLANS QUOTA ON CLOSED WON



6% OF PLANS QUOTA ON PIPELINE/PROCESS

In addition to receiving credit for new business, many AEs receive quota credit for cross-sells (43%) and growth (47%) from existing accounts.



Those that comp on pipeline/process have a higher satisfaction score.

► QUOTA PERIOD

33%

MONTHLY

50%

QUARTERLY

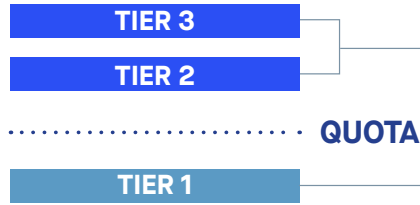
ACCOUNT EXECUTIVE SURVEY BENCHMARKS

▶ ACCELERATOR TIER STRUCTURE

On average, people have

3 TIERS

and 1 of those tiers are under quota.



These tiers give your high performers more targets to reach after attainment

Varicent Concert has seen teams with more tiers below quota have a higher % of quota achievement

▶ EXTRA INCENTIVES FOR SPECIAL TERMS

53%

 MULTI YEAR

e.g. signed a longer contract

23%

 BILLING TERMS

e.g. annual upfront

17%

 PRODUCT SPECIFIC

e.g. selling a new product

▶ PAYMENT TRIGGERED

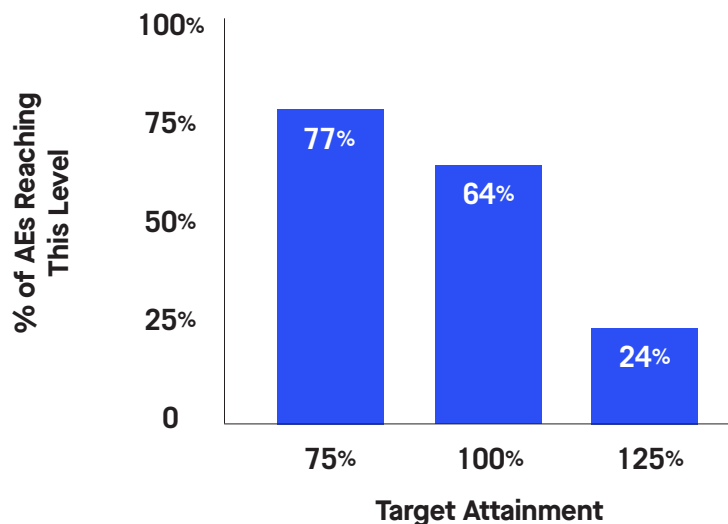
48%

EARNED AT BOOKING

17%

EARNED ON CASH COLLECTION

▶ QUOTA ATTAINMENT



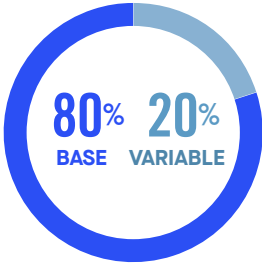
CLIENT SERVICE SURVEY BENCHMARKS

► How likely are you to recommend your CS comp plan to a peer at another company?



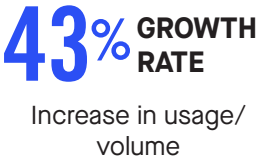
1,488
CLIENT SERVICE PAYEES AND
46 COMPANY RESPONDENTS

► BASE:VARIABLE MIX



23% of CS respondents have no variable compensation

► QUOTA METRICS



Scores were higher for companies that paid on multiple metrics.

► QUOTA PERIOD



Annual quotas have the lowest satisfaction score (2.25)

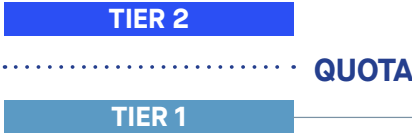
CLIENT SERVICE SURVEY BENCHMARKS

▶ ACCELERATOR TIER STRUCTURE

On average, people have

2 TIERS

and 1 of those tiers are under quota.



Varicent Concert has seen teams with more tiers below quota have a higher % of quota achievement

▶ EXTRA INCENTIVES FOR SPECIAL TERMS

67% DON'T HAVE KICKERS

14% MULTI YEAR

7% PRODUCT SPECIFIC

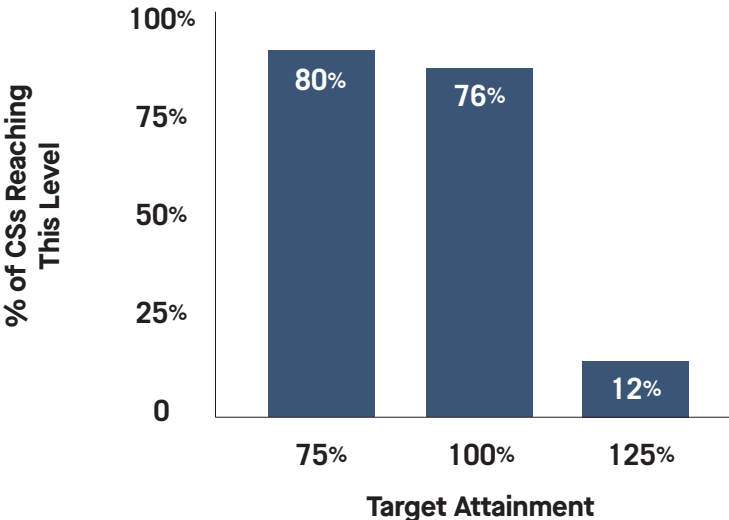
Determine if the kickers you want to comp on (e.g. multi-year deals) is truly a sales lever vs part of a process

▶ PAYMENT TRIGGERED

37% EARNED AT BOOKING

12% EARNED ON CASH COLLECTION

▶ QUOTA ATTAINMENT



ABOUT THE SURVEY AND BENCHMARKS

The State of Sales Compensation in 2020 survey covers nearly 9,000 employees with variable compensation in Sales Development, Account Executive, and Client Service roles from 91 participant companies.

We sourced participants through the Modern Sales Pros community and companies who manage their incentive compensation through the Concert platform. As a result, participants are largely headquartered in or have their largest operations in the United States of America.

We removed any incomplete data points or responses that could not be verified for accuracy from the analysis.

No compensation was offered for participation in the survey. Participant companies were offered a benchmarking report with individual participant responses anonymized and aggregated.

Companies were initially segmented by **Employee Count and Annual Sales Price**, as a proxy for company maturity and underlying sales processes, respectively.

Respondents skewed to mid-market selling into the mid-market or enterprise. This is more of a reflection of the population from which we sourced this data, rather than the pervasiveness or perception of the need of sales compensation benchmarking.

Most analysis is centered around **satisfaction score**.

We asked respondents “On a scale of 1 through 5, with 5 being the most likely to recommend, how likely are you to recommend this comp plan to a peer?” as a proxy for knowing the comp plan effectiveness. (Don’t worry, we first checked for bias based on who owns comp, and who reported the satisfaction score and controlled for that in the results.)

This year, we added questions on team quota attainment and incorporated that information in our analysis. We have also added those relevant benchmarks for each role on a weighted average basis.

After looking at trends across these three dimensions, the most consistently revealing was the satisfaction score, and most of our analysis was conducted against that metric.

Most analysis is centered around satisfaction score as a proxy for comp plan effectiveness.

COMPANY AND DEAL SIZE

	\$0-\$10K	\$10-\$25K	\$25-\$50K	\$50-\$100K	\$100K+
0-20	1%	4%	6%	1%	0%
20-50	4%	5%	6%	3%	4%
50-100	0%	5%	4%	4%	1%
100-300	10%	4%	11%	7%	4%
300+	3%	1%	4%	1%	5%

MODERN SALES PROS + **Varicent
CONCERT**

**For more information on comp plan
design or administration, go to
varicent.com**