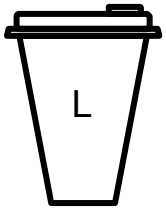
delta-v

Setting Sales Quota and Compensation

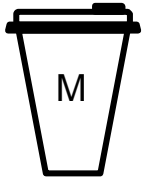
with Ramy Stephanos

Google | FireHydrant | elastic | salesforce

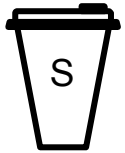
Who likes Coffee?



➔ Large organization: 75M+ ARR, >75 AE’s



➔ Medium organization: 25M+ ARR, >30 AE’s



➔ Small organization: <25M ARR, <30 AE’s

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.

Sales quotas drive accountability from sales

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

They align sales behaviors with business success

Sales compensation is the primary incentive you can use to align sales behavior with business success.

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

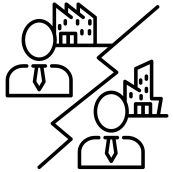
Achievable Bookings per Rep

Validate by looking to past results to gauge reasonable and achievable expectations for what the market and AEs yield

What is achievable per rep?

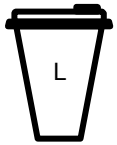
Look at your historical performance data

- Average deal size
- Reasonable volume per rep
- Y/Y Growth to Quotas



Compare to your competitors

- Find OTE in job descriptions
- Find/Estimate average sales price

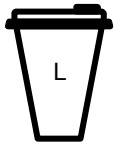


How do quotas vary by deal size/type?

Across deal sizes, in software quota is often ~3x OTE

Total quota depends upon average sales price and the effort involved in making a sale

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

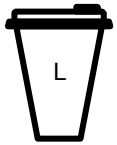


Should you use accelerators and how should you structure them?

- ➔ 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
125% - 200%	Accelerate 1.5x - 2x
~ 200%+	Decelerate back to 1x



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

DO	DON'T
Use a decelerator at the high end ✓	Pay total comp on a long deal at sign ✗
Have discount limits and approvals ✓	Write a lot of exceptions ✗
Use a clawback policy ✓	
Write a lookback policy ✓	

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

salesforce

HubSpot

intuit quickbooks

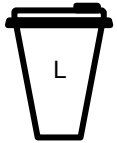
NETSUITE

QUOTAPATH

SPIFF

CallidusCloud

FORMA.AI



What about ...

Reps with different quotas

At 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:

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

How does the Quota:OTE ratio shift in leaner economic times?

Quotas communicate expectations to sellers

Quotas need to make sense for your business (factoring in cash burn and bottom line)

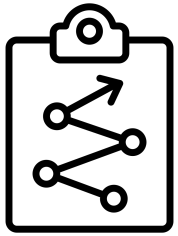
You *can* increase Quota : OTE

But be careful not to increase ratios *dramatically* – it can lead to significant attrition

Adjust quotas if territories change

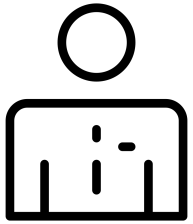
If territories grow because of a sales team downsize, quotas still need to match company targets

How else can you incentivizing desired sales behavior?



Align your comp plan with your strategy

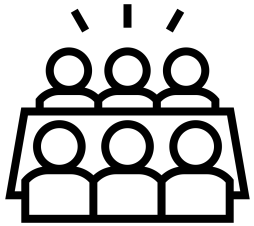
- Tie compensation to your KPI's
- Utilize revenue multipliers
- Incentivize up front cash
- SPIFF's



Highlight successful reps

- Create Presidents Club
- Give high performers special recognition (e.g. cash rewards)
- Team Lead positions

What’s the best way to communicate quotas to reps?



Announce at the sales kickoff meeting

Show the comp plan, quotas, and accelerators in at the beginning of the fiscal year.

Build a commission calculator

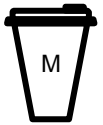
This will motivate reps and show them how much they’ll receive based on their deals.

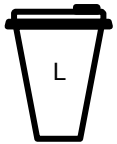
Create a bookings policy

These terms and conditions dictate what’s allowed and not, clawbacks, what the accelerators are, etc.

What to focus on by stage:

$0-25M in revenue	• Don't be afraid to be innovative • 2x "Annual" Planning is highly recommended
$25-75M in revenue	• Establish and Scale your processes • Invest in Tools and Operations team
$75M+ in revenue	• Tools & Operations teams Established • Less Innovation and more iterations/customizations





Questions

How to compensate Channels

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