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'SUBSCRIBING' TO THE BEST SALES COMPENSATION PLAN

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Develop a sales compensation model that attracts results.

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If you're in technology, you probably already know the term SaaS. SaaS, or Software as a Service, represents an increasingly common challenge for sales compensation professionals, and this challenge is not contained to those in the technology arena.

The primary challenge in industries with subscription-type sales lies in the possibility of sales reps making sales using different financial structures. Sales that can be financially structured in very different ways create a unique compensation challenge.

As always, there is not a simple, one-size-fits-all solution to this sales compensation challenge.

The challenge of compensating subscription sales can be illustrated by discussing your local car wash. The car wash business is one that hasn't changed a lot in the past 30 years. Have there been technology improvement in the automated car wash systems?

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The first decision is whether to create separate quotas and components for the different sales models.

	Deal Value	Mutlipier	Multiplied Deal Value	Commmission Rate	Commissions Earned
Deal 1 Bull Purchase	$1,000.00	1X	$1,000.00	10%	$100.00
Deal 2 Six-Month Subscription	$100.00	12X	$1,200.00	10%	$120.00

Have many car washes additional services such as oil changes? Definitely. But the real game changer in the past few years is the addition of the subscription model. Now, you can buy a monthly subscription that allows you to take your car in for a wash for a number of times per month. Your car wash owner probably loves this subscription model because of the recurring revenue it generates. The use of the car wash may go up and down but the revenue at least remains consistent.

The local car wash serves as one subscription example that can impose a potential compensation challenge if that car wash employs direct salespeople. Those salespeople wouldn't be tasked with selling individual washes. They'd be tasked with some combination of selling bulk car washes (such as 25 washes for $150) and monthly subscriptions. This creates a three-element sales compensation challenge:

- Do we want to incentivize either sales model over the other or balance them?
- Do we want to create separate quotas for sales in the separate models?
- How can we keep things simple in sales comp when the actual sales model has inherent complexity?

The questions draw attention to how businesses need to strategically decide whether there is a preference for one model over the other. Many businesses are moving in the direction of subscriptions where possible, even though there is a potential risk of losing legacy clients that won't buy a subscription. This strategic decision needs to be decided up front, by C-suite leadership, to best inform the sales comp decisions to come.

Also, sales comp levers can be used to appropriately incentivize based on the strategic sales model decisions. The first decision is whether to create separate quotas and components for the different sales models. Much of this depends on whether there is enough business history to set distinct quotas in both models for individuals. If so, it is possible to set those quotas and decide upon component weights among them that reflect that strategic decision in how to balance those sales models. There are other options to consider:

Option 1

Instead of a quota-driven structure, consider using a rate-driven structure.

Set commission rates for each of the different sales models. For the up-front buy sales model, set a commission rate that is enticing but within the bounds of what your profit margins can handle. For the subscription model, you need to consider factors such as whether you're able to contractually lock your customers in for set periods of time. If you are, depending on your business, you could set a commission rate based on the amount of monthly recurring revenue (MRR) during the contract or annual contract value (ACV), with higher rates paid on longer term deals.

If your business model does not allow you to lock customers into contracts, then you'll have some tougher decisions to make. You'll have to look at history that you hopefully have of how long customers tend to stay with your business. If the average customer stays at least six months, you will need to decide if you're willing to pay full commission on subscriptions sold, even though there is nothing obligating the customer to stay past the first month. You could have potential commission overpayment if a customer leaves early yet you've paid full commission. Things can easily go the other way though, where a customer stays much longer than the six months you assume. Both are possible when paying on a subscription model without contracts.

Option 2

Use multipliers to combine both up-front buy sales and subscription sales into a single comp structure.

Multipliers are tricky, so this concept is best explained with an illustration. Let's assume that dollars invoiced is the common denominator across two different deal types. Deal No. 1 is $1,000 for 150 car washes. Deal No. 2 is a six-month contract for a monthly subscription that gives the customer unlimited car washes for two vehicles for $100 per month. Initially, it may seem that the first deal is more valuable because of the $1,000 invoice amount, compared with the second deal being worth $600 across the six-month period. But if there's any chance of the customer renewing or signing a contract extension, it quickly becomes possible for Deal No. 2 to create a better long-term customer. Suppose we will pay a constant 10 percent commission rate. For Deal No. 1, this is a simple $100 in commissions. For Deal No. 2, what deal value do we use? If we used the monthly invoiced value, it would appear to be only a $100 deal, generating $10 in commissions. If we used the total contract value, it would be $600 invoiced, generating $60 in commissions. But what if we used the monthly invoiced value with a multiplier, such as 12x, that applies only if the deal meets certain terms, such as having a contract length of at least six months? In that case, we would take the $100 monthly amount, multiply it by 12x, and thereafter treat the deal as a $1,200 deal for commission purposes. Using the 10 percent commission rate, the sales rep would earn $120 on the sale.

Figuring out the right multiplier and qualifiers is different for every business. If the goal is to keep up-front buy sales equal to subscription sales, then equivalent deals need to be modeled to decide what example deals would look like that are of roughly equal size but in two structures. Then the multiplier would need to be set to make sure that commissions will be roughly equal regardless of which type of sale occurs. If the goal is to emphasize subscription sales, then simply increase that multiplier. We used 12x as the multiplier in the earlier example, but going to 15x would clearly send the signal that subscriptions are preferred. Going in the other direction, an 8x multiplier would push the sales reps to sell more up-front buys, while still compensating them for the subscription sales that do occur. If subscriptions are annual, as many are for SaaS products, then multipliers will be much lower (between 2x and 5x).

As sales compensation professionals, it is our job to translate the organization's overall sales strategy into a coherent sales compensation model that appropriately pushes the right kind of sale. ws

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