



# SOFTWARE SALES COMPENSATION GUIDE

*Comprehensive Review for Stimulating Sales Production On Demand*

**Keychain Logic**  
*Accelerating Revenue On Demand*

[www.KeychainLogic.net](http://www.KeychainLogic.net)



**Designing incentive compensation plans to accelerate growth**

*"You don't have to be a fantastic hero to do certain things, to compete. You can just be an ordinary chap, sufficiently motivated to reach challenging goals."*

— Sir Edmund Hillary

## *Commissions Are More Than a Paycheck*

This *Sales Compensation Guide* supports effective program development for independent software vendors (ISVs) in Software-as-a-Service (SaaS) and On-Demand environments. It includes articles that describe the steps involved in:

- Defining business and sales objectives
- Describing territories and target markets
- Identifying revenue and commissionable events
- Designing the sales compensation plan
- Presenting the plan and gaining buy-in
- Plan administration and commission payments

We are pleased to make this information available to the industry and hope it will help accelerate the growth of SaaS and On-Demand companies.

Please feel free to contact us with questions about compensation plan design or on building a particular program.

We have been providing successful sales, strategic marketing, and business development leadership to technology companies for over twenty years and will be pleased to assist in the successful development of your sales strategy and team.

## *Compensation Guide Table of Contents*

A successfully focused compensation plan is key to deploying a highly motivated sales organization that can accelerate revenue growth.

Included in this guide are important process recommendations, ideas for helpful tools used in growth-focused plan administration, and commentary on how different environments benefit from various approaches.

The guide is organized to support the compensa-

tion plan development process, and it is designed to help achieve SaaS and On-Demand business objectives by attracting high-production sales professionals.

Our goal is to enhance ISV transformation. Beyond this guide, we are available to provide additional support and detailed recommendations.

Topics in the guide include:

### **Establishing the Compensation Plan's Foundation**

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# Linking Business & Sales Objectives



The key to crafting a successful incentive compensation plan is to first define "success" in the context of the business' overall objectives. Independent software vendors (ISVs) with clear strategic business objectives can readily describe what they require from their sales organizations.

ISVs entering the Software-as-a-Service (SaaS) and On-Demand markets may be introducing applications, reaching new customers, or expanding geographically and into new verticals. Established companies may have existing customers or

compensation plan: A commission program that rewards new revenue growth will look significantly different from one focused on base retention.

High-growth companies with the most successful sales organizations keep three rules in mind with regards to their compensation plans:

(1) Simplicity sells. The more straightforward the plan and the more obvious the results, the more focused the sales team will be on attaining them.

(2) Salespeople do *exactly* what they are paid to do. They find the easiest path to money, so clear and direct is the incentive.

Success equals boundless success is tied to the parties win.

A plan tied to business objectives, the growing ISV market, and the minor, regular nature of the sales organization's performance.

*"I have been impatient with the urgency of doing. Knowing enough; we must. Being willing is not enough; we must."*

— Leonardo da Vinci

*"Motivation is the art of getting people to do what you want them to do because they want to do it."*

— Dwight D. Eisenhower



contributors to exceed them. To be an effective motivator, the plan needs to be challenging *and* attainable while providing high earning potential.

To this end, "Quota" must be more than merely the multiplication of sales price by the number of units to be sold during a given period. The size of an individual contributor's territory and whether an ample market exists within it (i.e., the number of ideal target customers) must also be considered.

Too-small territories with insufficient opportunity can act as a *disincentive* to growth, and too-large territories without clearly defined market boundaries can result in channel conflict if quotas are not established appropriately.

More complex engagements with a longer sales cycle are managed by outside teams with quotas based on revenue and key logo acquisition.

Alternate channels, such as sales agents and partners, require less day-to-day management from the ISV but also return lower net unit revenue; their benefit is in expanded reach, so they are compensated on a volume basis.

Quotas should be developed within the framework of the ISV's pricing scheme and made up from only commissionable revenues. Monthly user fees, per-transaction charges, success-based payments, etc., all will be treated differently for both quota and commission purposes.

## Market

et verticals within multiple channels. Each channel will have its own compensation plan. There is nothing simple about it. Compensation is different ends.

ed on the channel, the level of experience. Inside sales handles simpler deals that drive near-term profitability. Outside sales drives cus-

# Revenue & Commissionable Events

Not all revenue is created equal.

Most salespeople will argue "revenue is revenue," and all of it should earn a commission; however, independent software vendors (ISVs) – particularly those committed to directed growth in the Software-as-a-Service (SaaS) and On-Demand models – understand otherwise.

Successful compensation plans acknowledge the relative value of different revenue streams. To some ISVs, term service contracts are worth more than more risky success-based agreements.

Committed monthly revenue contributes to determine whether a 3- to 5-year term and fee is in obtaining a return on investment to the base customer.

Demand (or "pull") commissionable events are initiated. Per-transaction revenue is relative to customers

ments, these sales present a host of compensation issues, including quota development and payment administration.

The ISV also must design its plan to recognize commissionable events so they provide appropriate success incentives while guarding against undue cash-flow and administrative burdens.

For "hunting" salespeople, commissions can be made payable upon contract signature or receipt of a customer PO. Service-focused account management teams can be paid when complex imple-



## PROS & CONS OF ADAPTING A TRADITIONAL PLAN

## Pros

Incentive compensation contract benefits salespeople; the best agreements are in three stages.

- (1) The plan documents the sales team member's eligibility; administrative requirements; attainment; payment structure.
- (2) A quota acknowledgment

All compensation plans should be built with one eye focused on its administration. The mechanics of registering sales, preparing statements, and recording commission payments are integral to a plan's effectiveness.

As with the plan, simplicity in administration is key. Finance will want documentation of sales, Payroll will issue statements and track payments, and there will need to be processes for charge backs and departing employees, but all of these can be readily done.

For small- to medium-sized ISVs with up to 30

salespeople, an effective plan can be managed by one or two people using a set of spreadsheets. Well-organized plans delegate some of the administrative burden – paperwork tracking and filing – to individual contributors and their managers.

The high-growth compensation plan is most effective when commissions are paid as soon after the close of the sale as possible, and successful plans will result in a high volume of new sales.

Thus, the primary benefits of good plan administration are the link between sales and rewards and the ability to scale with the resulting growth.

ent software vendors to the Software-as-a-Service (SaaS) and On-Demand models. Salespeople often try to adapt their compensation plans to the recurring revenue business model.

is typically accomplished by commissions on an estimate of a recurring revenue stream value by multiplying the estimate by the number of months in the term. Alternately, the ISV can establish an annuity, paying a percentage of each month's billed revenue.

These plans benefit the ISV by providing a structure familiar to the sales team and helping maintain high earnings levels of their top performers.

Challenges with the annuity approach are twofold: First, it is difficult, particularly for salespeople who join and leave the company, adding complexity to the calculation of commissions for each dollar of recurring revenue. Second, as commissions grow, the sales team may grow complacent about their new business, instead of focusing on maintaining their base.

The annuity approach creates administrative problems with tracking, although they manifest as charge-back complications, and salespeople that are successful early in the year have little incentive to continue to produce. Moreover, these commission payments can be higher than monthly billed revenue, creating an initial negative cash flow situation for the ISV.

The purpose of this guide is to demonstrate that SaaS and On-Demand companies can create simple, alternate solutions that reward and retain existing sales teams while allowing the ISV to leverage and benefit from the new recurring revenue model.

