

Performio®

Sales Compensation For SaaS Companies

A Primer For SaaS Sales Comp Professionals



Sales Comp In Software Companies

For years, software analysts and thought leaders have shared their perspectives on the underlying strategies and designs of compensation plans for sales organizations in SaaS companies. These perspectives are valuable, but largely theoretical (“identify your most important business objectives and tie the comp plans to those”). They do not provide specific, practical, proven plans to motivate reps and drive growth.

At Performio, we’ve implemented hundreds of sales comp plans for SaaS companies that serve customers from small & medium-sized businesses up to enterprise organizations in horizontal and vertical markets. While every company is different, we’ve identified sets of common measures and components to construct example plans for each major revenue-facing role. In the pages that follow, you’ll find example plans for the most common roles at SaaS companies. Naturally, you’ll want to modify these sample plans to work with your unique business objectives, but they provide a good starting point by showing you clear examples with popular and proven compensation metrics.



Sales Comp for SaaS: Common Performance Measures

Annual Contract Value (ACV)/Annual Recurring Revenue (ARR) Twelve months of software subscription revenue. This metric is typically used by midmarket and enterprise SaaS companies that sell annual contracts. The average commission rate on this measure paid to account executives is 10%.

Monthly Recurring Revenue (MRR) One month of software subscription revenue. This is often used by SaaS companies targeting SMBs that sign monthly contracts and pay monthly.

Expansion ACV/ARR *Incremental* software subscription revenue from existing customers arising from additional users or upsells/cross-sells on new products and features. The common rate paid is 8-10% for AEs and 4-6% for customer success managers.

Renewal ACV/ARR Software revenue for existing customers that renew for a subsequent term. Since this revenue comes from existing customers and is at lower risk, commission rates are generally lower, usually 2-3%.

Net Retention Rate (NRR) The percentage change in recurring revenue from a specific group of customers. This includes both reductions in ARR (from churn or downgrades) and expansion ARR.

Services Revenue One-time fees associated with implementations or ongoing services performed by the professional services team. This is less “valuable” revenue than ARR and is typically paid at 1-3%.

Multiyear Contract A software contract with a term of two-plus years. These are typically paid at a higher rate than a contract with a one-year term (assuming the contract cannot be cancelled).

New Logos New customers.

Management by Objectives (MBOs) An employee’s goals or objectives (e.g. forecast accuracy). Typically MBOs are used for managers and relate to non-revenue measures (i.e. not measured in dollars).

Account Executive

The account executive is the point person whose primary responsibility is to close new business. Although new software sales often include a services component, the AE is primarily compensated for software revenue because recurring revenue is more valuable than one-time services revenue. In some companies, AEs are responsible for expansion and renewal business, but in other organizations, this responsibility falls on the customer success team.

Sample Compensation Plan – Account Executive

Plan Item	Value	Notes										
On-Target Earnings (OTE)	\$180,000	Sum of base salary + OTC.										
Pay Mix (base / commission)	50/50	50% at-risk pay is common for AEs.										
On-Target Commission (OTC)	\$90,000	Total commission earned if quota is met.										
Measures & Weighting	New ACV = 90% Services Revenue = 10%	Percentage of OTC applied to each performance measure.										
OTC by Measure	New ACV = \$81,000 Services Revenue = \$9,000	Product of weighting x OTC.										
Quota	New ACV = \$810,000 Services Revenue = \$600,000	Average new ACV quota is 10x OTC (results in 10% rate).										
Base Commission Rate (BCR)	New ACV = 10% Services Revenue = 1.5%	Commission rate if quota is met.										
Rates	<p>New ACV</p> <table border="0"> <tr> <td>Attainment</td> <td>Commission Rate</td> </tr> <tr> <td>0-100%</td> <td>1x BCR (10%)</td> </tr> <tr> <td>101-120%</td> <td>1.2x BCR (12%)</td> </tr> <tr> <td>121-150%</td> <td>1.5x BCR (15%)</td> </tr> <tr> <td>151%+</td> <td>1.75x BCR (17.5%)</td> </tr> </table> <p>Services Revenue Commission rate = 1.5%</p>	Attainment	Commission Rate	0-100%	1x BCR (10%)	101-120%	1.2x BCR (12%)	121-150%	1.5x BCR (15%)	151%+	1.75x BCR (17.5%)	Rates are tiered according to quota attainment.
Attainment	Commission Rate											
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Multiyear Kickers	2% of ACV for > three-year deals	Added to commission rate if criteria is met.										

Comp Plan: Sales Manager

The sales manager directly manages a team of account executives. He or she is responsible for the team’s output and is usually compensated on measures similar to those for account executives. However, it is common for a portion of a manager’s variable compensation to be tied to a Management by Objective (MBO) such as team achievement, forecast accuracy, or team retention.

Sample Compensation Plan – Sales Manager

Plan Item	Value	Notes																
On-Target Earnings (OTE)	\$220,000	Sum of base salary + OTC.																
Pay Mix (base/commission)	60/40	Managers have less direct control over the sale and often have less of their pay at risk than AEs.																
On-Target Commission (OTC)	\$88,000	Total commission earned if quota is met.																
Measures & Weighting	New ACV = 70% Services Revenue = 10% Team Achievement MBO = 20%	Managers often have an MBO as part of their variable compensation.																
OTC by Measure	New ACV = \$61,600 Services Revenue = \$8,800 Team Achievement MBO = \$17,600	Product of weighting x OTC																
Quota	New ACV = \$4,840,000 Services Revenue = \$3,300,000 Team Achievement MBO = 75% of team achieves quota	Managers oversee 5-8 AEs and typically carry their team’s total quota.																
Base Commission Rate (BCR)	New ACV = 1.27% Services Revenue = 0.27% Team Achievement MBO = N/A	Given they carry higher quotas than AEs, managers’ commission rates are lower than AEs.																
Rates	<p>New ACV</p> <table border="0"> <tr> <td>Attainment</td> <td>Commission Rate</td> </tr> <tr> <td>0-100%</td> <td>1x BCR (1.27%)</td> </tr> <tr> <td>101-120%</td> <td>1.2x BCR (1.5%)</td> </tr> <tr> <td>121-150%</td> <td>1.5x BCR (1.9%)</td> </tr> <tr> <td>151%+</td> <td>1.75x BCR (2.2%)</td> </tr> </table> <p>Services Revenue Commission rate = 0.27%</p> <p>Team Achievement MBO % Team at Quota Commission Rate</p> <table border="0"> <tr> <td>0-40%</td> <td>0% of OTC</td> </tr> <tr> <td>40-74%</td> <td>50% of OTC</td> </tr> <tr> <td>75+%</td> <td>100% of OTC</td> </tr> </table>	Attainment	Commission Rate	0-100%	1x BCR (1.27%)	101-120%	1.2x BCR (1.5%)	121-150%	1.5x BCR (1.9%)	151%+	1.75x BCR (2.2%)	0-40%	0% of OTC	40-74%	50% of OTC	75+%	100% of OTC	Rates are often tiered according to quota attainment.
Attainment	Commission Rate																	
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Comp Plan: Sales Engineer

The sales engineer (sometimes called a solutions engineer, pre-sales engineer, or solutions architect) supports account executives in closing deals by performing technical demonstrations that can involve standard or customized presentations, sometimes using the customer’s own data. While an effective demo can have a very favorable impact on the sales cycle, sales engineers have less influence over the outcome of a sale than an AE. Consequently, the portion of their total at-risk compensation is often lower than for an AE. Sales engineers are often compensated only on the primary measure (e.g. new ACV) for the sales reps they support.

Sample Compensation Plan – Sales Engineer

Plan Item	Value	Notes										
On-Target Earnings (OTE)	\$160,000	The OTE for an SE is often lower than an AE of similar experience, but their base salary is often higher.										
Pay Mix (base/commission)	70/30	SEs typically have less of their compensation at risk than AEs.										
On-Target Commission (OTC)	\$48,000	Total commission earned if quota is met.										
Measures & Weighting	New ACV = 100%	Often, SEs are compensated only on the primary measure that an AE is compensated on.										
OTC by Measure	New ACV = \$48,000	Product of weighting x OTC.										
Quota	New ACV = \$2,640,000	SEs typically support more than one AE and carry the quota for multiple AEs.										
Base Commission Rate (BCR)	New ACV = 1.8%	The higher quota and lower OTC results in a lower commission rate than an AE.										
Rates	<table border="1"> <thead> <tr> <th>New ACV Attainment</th> <th>Commission Rate</th> </tr> </thead> <tbody> <tr> <td>0-100%</td> <td>1x BCR (1.8%)</td> </tr> <tr> <td>101-120%</td> <td>1.3x BCR (2.4%)</td> </tr> <tr> <td>121-150%</td> <td>1.6x BCR (2.9%)</td> </tr> <tr> <td>151%+</td> <td>1.9x BCR (3.5%)</td> </tr> </tbody> </table>	New ACV Attainment	Commission Rate	0-100%	1x BCR (1.8%)	101-120%	1.3x BCR (2.4%)	121-150%	1.6x BCR (2.9%)	151%+	1.9x BCR (3.5%)	Rates are often tiered according to quota attainment.
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Comp Plan: Business Development Representative

Business development representatives or BDRs (sometimes called sales development reps or SDRs) play an important role in the early stages of a sales cycle by setting up initial appointments with qualified prospects and handing off qualified leads to account executives to pursue. A BDR – almost exclusively an “inside sales” role – is more junior than an account executive and typically has lower on-target earnings. BDRs should be paid on the primary responsibility they control: setting up quality appointments with qualified prospects. Some companies pay BDRs on the revenue subsequently generated from appointments they set, but this is usually a smaller component of their compensation, since they have little influence over whether a deal closes once the AE takes over the opportunity.

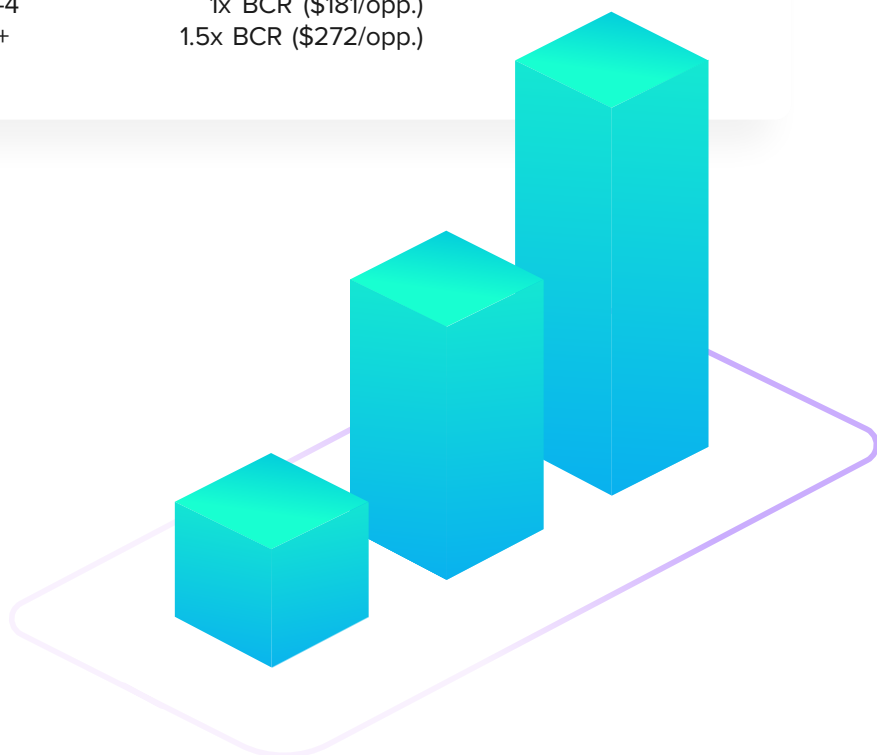


Sample Compensation Plan – Business Development Representative

Plan Item	Value	Notes
On-Target Earnings (OTE)	\$62,000	Since it is an entry-level sales role, BDRs have a lower OTE than AEs.
Pay Mix (base/ commission)	65/35	BDRs typically have a higher percentage of their total comp as base salary than AEs do.
On-Target Commission (OTC)	\$21,700	Total commission earned if quota is met.

Sample Compensation Plan – Business Development Representative

Plan Item	Value	Notes												
Measures & Weighting	Meetings Held = 60% Qualified Opportunities = 40%	Typically, BDRs are compensated for the number of meetings they set and the quality of the meetings.												
OTC by Measure	Meetings Held = \$13,020 Qualified Opportunities = \$8,680	Product of weighting x OTC.												
Quota	Meetings Held = 8/month Qualified Opportunities = 4/month	When setting quotas, choose an acceptable conversion rate from initial meeting to qualified opportunity.												
Base Commission Rate (BCR)	Meetings Held = \$136/meeting Qualified Opportunities = \$181/meeting	Calculated by OTC/quota.												
Rates	<p>Meetings Held</p> <table border="0"> <tr> <td>Meetings</td> <td>Commission Rate</td> </tr> <tr> <td>0-8</td> <td>1x BCR (\$136/mtg.)</td> </tr> <tr> <td>9+</td> <td>1.5x BCR (\$204/mtg.)</td> </tr> </table> <p>Qualified Opportunities</p> <table border="0"> <tr> <td>Opportunities</td> <td>Commission Rate</td> </tr> <tr> <td>0-4</td> <td>1x BCR (\$181/opp.)</td> </tr> <tr> <td>5+</td> <td>1.5x BCR (\$272/opp.)</td> </tr> </table>	Meetings	Commission Rate	0-8	1x BCR (\$136/mtg.)	9+	1.5x BCR (\$204/mtg.)	Opportunities	Commission Rate	0-4	1x BCR (\$181/opp.)	5+	1.5x BCR (\$272/opp.)	Rates are often tiered according to quota attainment.
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Comp Plan: Customer Success Manager

The customer success manager (CSM) focuses on the post-sale relationship with the customer, working to ensure the customer receives meaningful value from their software investment. Depending on the maturity of your organization and market, the CSM can be responsible for adoption of your product, retention (i.e. renewals), or expansion revenue. These post-sale efforts typically influence renewals, so the CSM is often compensated on renewal ACV. However, some CSMs are responsible for upsells and cross-sells and are therefore compensated on expansion ACV. In other organizations, the CSMs are responsible for generating services revenue and are compensated on that metric.

Sample Compensation Plan – Customer Success Manager

Plan Item	Value	Notes												
On-Target Earnings (OTE)	\$120,000	Sum of base salary + OTC.												
Pay Mix (base/ commission)	80/20	CSMs are not “pure” sale reps, and have limited control over renewals. Thus they typically have a relatively low percentage of their compensation at risk.												
On-Target Commission (OTC)	\$24,000	Total commission earned if quota is met.												
Measures & Weighting	Renewal ACV = 60% Expansion ACV = 40%	For most CSMs, renewals make up a larger portion of variable comp than expansion.												
OTC by Measure	Renewal ACV = \$14,400 Expansion ACV = \$9,600	Product of weighting x OTC.												
Quota	Renewal ACV = \$1,900,000 (95% of renewal pool) Expansion ACV = \$300,000 (15% of renewal pool)	Assumes CSM is responsible for \$2,000,000 in renewals for the year.												
Base Commission Rate (BCR)	Renewal ACV = 0.76% Expansion ACV = 3.2%	Expansion revenue is more challenging to generate than renewals, and is typically paid at a higher rate.												
Rates	<p>Renewal ACV</p> <table border="0"> <tr> <td>Attainment</td> <td>Commission Rate</td> </tr> <tr> <td>0-100%</td> <td>1x BCR (0.76%)</td> </tr> <tr> <td>100%+</td> <td>1.3x BCR (0.99%)</td> </tr> </table> <p>Expansion ACV</p> <table border="0"> <tr> <td>Attainment</td> <td>Commission Rate</td> </tr> <tr> <td>0-100%</td> <td>1x BCR (3.2%)</td> </tr> <tr> <td>100%+</td> <td>1.3xBCR(4.2%)</td> </tr> </table>	Attainment	Commission Rate	0-100%	1x BCR (0.76%)	100%+	1.3x BCR (0.99%)	Attainment	Commission Rate	0-100%	1x BCR (3.2%)	100%+	1.3xBCR(4.2%)	
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These plans are just examples that represent some of the most common components we see in software incentive-compensation plans. Naturally, each company has different objectives and will have comp plans that vary, but many of the core components will remain the same.

Other Common Sales Comp Terms In SaaS

We have compiled some of the most common practices in calculating and administering sales comp plans at SaaS companies. These are the terms we see most frequently:

Bluebirds or Mega-Deals

To protect against excessive commission payments from large, unexpected deals, some SaaS companies treat these deals differently. One way is to reduce accelerators or provide quota relief on only a portion of the deal. However, most SaaS companies treat these deals the same as any other deal.

Clawbacks

Most software companies recover previously paid commissions if a deal is subsequently ineligible for commission. The most common case involves customer cancellations, but clawbacks can also arise from customer nonpayment or data errors. The most common lookback period for clawbacks is 12-months.

Customer Contract Terms

Since SaaS companies want to be paid quickly, management approval is often required for deals with a start date more than 30 days from the signing date or for payment terms longer than 30 days out.

Eligibility

Typically, to be eligible for a commission, a deal must be in the rep's territory and have all required fields completed in Salesforce. Also, the customer must not have an agreement that was cancelled within the previous six months (i.e. a recent, previous customer).

Hold and Release

For some deals, software companies hold all or some of a commission and release it when specific milestones or events have occurred. This is common for deals where the commission is so large that the company must first be paid by the customer before paying the commission. It's also common if a deal is at a higher risk of cancellation or if licenses do not start for more than 30 days from contract signing.

Payment Period and Payment Date

Typically, companies pay commissions in the month following deal signature. Some pay all deals at the base commission rate and withhold accelerators until a quarterly true-up. This can make calculations and prior-period adjustments easier.

President's Club

The threshold for inclusion in an elite subset of sales reps (often rewarded with an incentive vacation trip) is often set at 110-125% of quota.

Quota Period

Annual quotas are common in software companies, but quarterly and semesterly quotas are not uncommon. Earlier-stage companies or those with less predictable sales cycles may require shorter quota periods so they can adjust throughout the year as sales develop.

SPIFs and Kickers

Added bonuses are common for end-of-quarter pushes and multiyear agreements.

Splits

When an AE receives support from another AE, the split is typically worked out in advance with the approval of management.

Uncapped Plans

Most SaaS sales-comp plans are uncapped.

Performio's Blueprint For SaaS Companies

To maximize revenue opportunities and speed up time to value, SaaS companies need an incentive compensation management solution that is built for the unique needs of software companies. Drawing on our 15-year history of automating sales commissions for SaaS companies, Performio offers the SaaS Blueprint, the only incentive compensation management solution designed specifically for SaaS companies. The SaaS Blueprint will jumpstart your efforts to deploy commission software for all revenue-generating roles in your organization. Here's how the Performio SaaS Blueprint can put your sales comp on the fast track:



A Data Model Built for Software

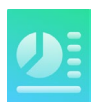
The Performio SaaS Blueprint is built on a robust data model that supports all common performance measures and crediting logic involved in calculating software sales commissions. It supports MRR, ARR, teams, territories, multiple products, splits, hold-and-release logic, clawbacks, and more.

The prebuilt Salesforce connector imports your sales data quickly and easily, while preconfigured tables handle all opportunity-related data using the most common standard Salesforce fields and any custom fields your organization has. Rollups make it easy to assign credit to managers for deals produced by their teams. Rollover crediting allows non-hierarchical crediting (e.g. sales engineers who receive credit for deals from specific account executives).



Preconfigured Plan Components to Build any Software Comp Plan

Performio's SaaS Blueprint includes prebuilt plan components you can use to implement simple or sophisticated SaaS commission plans. These components include OTC plans with tiered accelerators and decelerators as well as commission-per-sale plans that pay per transaction. Out of the box, the Blueprint supports monthly, quarterly, semesterly, and annual quotas. An MBO module lets you add critical non-sales goals into your comp plan and accurately calculate and pay managers and executives whose plans include MBOs.



Prebuilt Reports and Dashboards to Manage Your Sales Organization

The Performio SaaS Blueprint includes the complete set of reports and dashboards you need to manage sales comp at your software company – from commission statements for sales reps and overviews of rep performance for sales leadership, to overall commission payouts for finance. You'll have everything you need to present key compensation data to your stakeholders. We also provide leaderboards to show stack rankings for President's Club eligibility as well as the ASC 606 reports finance needs to accurately expense commissions and comply with revenue-recognition rules.

About Performio

Performio is the only Incentive Compensation Management provider that drives business performance with a product built to handle complexity, a team of dedicated experts, and a proven track record of long-term global success. Performio is a modern, enterprise-grade software and mobile app used to manage and automate incentive compensation. We address complexity through our unique no-code architecture, native data transformation capabilities, purpose-built plan components, and automated workflows. But because software alone will not drive business performance, we do incentive comp right, with experts who will guide you as you adapt your incentive compensation program as your business changes. You can count on Performio as a reliable, focused, and safe partner who has delivered customer success for over 15 years.

For more information, visit www.performio.co

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