

Managing Cost of Sales

**CAC? 606? COS? Can someone please use real words?
This isn't the most fun task, but we're here to help.**

People often jump to commissions to lower cost of sales, but remember, fixed costs typically have a bigger impact. In both cases, you want to pay less in bad scenarios and potentially more in great scenarios.

Your challenge is *sales productivity*.

❑ **Figure out your costs**

If you are trying to optimize cost of sales, you need to know all your sales costs. For each cost identify:

- The primary user (Marketing, Sales, CS)
- What you are paying for (People, Process, Systems)
- If the cost is variable (increases as results improve) or fixed (stays the same regardless of results)

❑ **Try to make more of your Marketing costs variable**

Marketing can move on to a commissions structure by sharing targets with the Sales team. This alignment will facilitate communication and collaboration, especially if you are using Account-Based Marketing strategies. Plus, it will manage downside risk if the company is not getting results.

❑ **Add “decelerators” in low performance scenarios**

For performance levels under 50% of quota attainment, introduce a decelerated payout rate. This will limit the amount that your cost of sales goes up.

❑ **Focus your team by segmenting roles**

Almost all companies that optimize cost of sales segment their sales motion very deliberately. Focusing your team on specific sales activities and conversations significantly improves productivity. Common opportunities we see:

- Stop giving AE's credit for renewals
- Split reps by company size: SMB, Mid Market, and Enterprise

Your sales comp strategy should meet the needs of the business. If you are managing the cost of sales by planning for the downside and focusing your team on specific sales motions, you can be confident that your sales productivity will increase without diminishing motivation.
