

# Sales Comp 101

## Varicent CONCERT Commission Smarter

Sales compensation is a sensitive topic; people's pay is on the line! But it doesn't have to be confusing. We created this guide to make sure we're all speaking the same language.

Sales comp, or what a sales rep gets paid, is usually a mix of a base salary and extra financial incentives. It's used to encourage and set expectations for specific selling behaviors in order to help drive results to achieve individual, team and company goals.

The following terms and concepts will help you understand the different parts of sales comp and why they matter.

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## ➔ PLAN COMPONENTS

There are many ways to structure a sales compensation plan. But there are some fundamental commonalities that we see in the majority of plans. Consider adding these components to your plan.

**Achievement Tier:** Dependent on the percent to quota goal, this is a range that determines the amount used to calculate commissions. Achievement tiers can be above or below quota in order to encourage performance gates.

**Kicker:** A special incentive provided for specific deal terms. These types of incentives highlight a rep's autonomy and control over elements of negotiation. Kickers can be provided for multi-year deals, selling additional products or specific billing terms that are advantageous to the company.

**Management By Objective:** MBOs are a target or sales goal defined by an objective or type of activity. Commonly used to motivate management or non-quoted employees. Performance-based incentives, based on criteria other than opportunity data. MBOs are used to reward activities outside of a sales cycle, often to reward skill-building and development goals.

**Multiplier:** Sometimes called an accelerator or decelerator, this is the number that is used to calculate the commission rate depending on the quota attainment tier. The accelerator would be for performance over their quota (ex. 1.2x) and a decelerator would be used for performance under quota (ex. .65x).

**SPIF:** Sales Performance Incentive Fund (SPIFs) are used for one-time incentives. This is usually in the form of a flat amount but achievement tiers are occasionally used. SPIFs are used to focus teams on short-term achievement goals typically tied to specific parts of the sales process or key market segments.

**Target Bonus:** Incentives tied to aggregate performance metrics. Achievement tiers are optional. Target bonuses are often used when payouts are related to conversion or renewal rates, as opposed to opportunity counts of values.

**Terms & Conditions:** The legal language that defines the rules and procedures dictating how an incentive compensation plan will be put into practice. This document can be separate from specific payout rules or components, but is almost always included when introducing incentive compensation packages.

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## ➔ QUOTA

A lot of time is spent determining someone's quota. A quota is a way to measure a sales target or goal for an individual or a group. We typically see this calculated as the number of deals closed, dollar amount of deals closed or sales activity.

**Base Commission Rate:** Function of an individual's annual quota target and annual variable at risk on a specific measure. Generally, the commission rate at which the full OTE on a measure can be earned.

**Quota Period:** Time period over which a sales rep's attainment to a quota goal is measured. This is typically bound by month or quarter.

**Total Contract Value:** Total Contract Value (TCV) is the amount the customer is expected to pay over their current contract's life. TCV is often used as quota measurement. For example, a rep is expected to close \$200,000 of TCV in a month.

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## ➔ PAYMENT

And now for the fun stuff, money! Determining how and when payees, individuals eligible to earn commission, get paid needs to be specifically defined and followed.

**Clawback:** The reversal of a commission payout. Typically triggered by a failure to collect, unplanned changes to a signed contract, or for being in violation of company rules and procedures.

**On-Target Earnings:** On-Target Earnings (OTE) are the total compensation a rep can expect when they reach their quota goals. OTE includes both base salary and 100% commission attainment.

**Payout Rule:** The criteria used to trigger a commission payout. In order to encourage specific behavior, a payout rule is used to define when a deal qualifies for specific payouts. For example, a rep only gets additional for a deal that is greater than 12 months in length.

**Ready to commission smarter? [Talk to a comp expert](#) about how you can get started today without any expensive implementations or complicated spreadsheets.**