



***AMPLIFY SALES SUCCESS***

**AT YOUR ORGANIZATION!**

# The End of Weighting Relative Rate Plans to Direct Sales Focus

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*WorldatWork.*  
**2017** *spotlight on*  
**sales compensation**



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# The right comp plan encourages...



## Motivation

Sales people are **engaged**, putting in solid **effort**



## Focus

Sales people are selling the right **products** or services to the right **customers** with the right **terms** and the right **timing**



## Collaboration

Sales people are **teaming** as you intended to complete each sale, which may mean **involving** the right people or **working independently**



## Value Creation

Every sale and every sales person is creating solid **value for the business**

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# This discussion is focused on **FOCUS**



## Focus

Sales people are selling the right **products** or services to the right **customers** with the right **terms** and the right **timing**

### Find your focus

- Which sales are the most important ones?
- Which sales dollar/euro is most valuable to the business?
- What type of sale is both difficult for the sales person and important to the business?



### Support your focus

- Training
- Marketing and collateral
- Messaging to the sales team
- Results inspection and coaching
- The comp plan

# A simple example – Strategic Product emphasis

<b>The business</b>	<ul style="list-style-type: none"><li>• Software company selling Software as a Service (SaaS)</li><li>• All SaaS sold as 1 year contracts</li><li>• Need emphasis on Strategic Products sales</li></ul>
<b>The role</b>	Direct sales representative
<b>Key accountabilities</b>	<ul style="list-style-type: none"><li>• Priority 1 is selling the Established Products</li><li>• Priority 2 is gaining traction with Strategic Products, which are hard to quota and take more effort to sell</li></ul>
<b>Compensation Plan Thumbnail</b>	<p>Target Total Cash 90k = 45k base midpoint + 45k target incentive</p> <p>Measured and paid monthly against an annual quota</p> <p>Measures, all in terms of Annual Contract Value (ACV) Added</p> <ul style="list-style-type: none"><li>• 80% Established Products, 600k quota</li><li>• 20% Strategic Products, 100k quota</li></ul>

## 80%: Established Products Payout Table

ACV Added % Annual Quota	Commission (in range)
0 – 99.9%	6% ACV
100% or more	12% ACV

## 20%: Strategic Products Payout Table

Strategic Product ACV	Commission
All values	9% ACV

# A simple example – quotas vary

*Holding the weights to 80/20 yields different relative rates across the components*

**Established Products**  
Quota = 600k

ACV Added % Annual Quota	Commission (in range)
0 – 99.9%	6% ACV
100% or more	12% ACV

**Established Products**  
Quota = 600k

ACV Added % Annual Quota	Commission (in range)
0 – 99.9%	6% ACV
100% or more	12% ACV

**Established Products**  
Quota = 700k

ACV Added % Annual Quota	Commission (in range)
0 – 99.9%	5.1% ACV
100% or more	10.3% ACV

**Strategic Products**  
Quota = 100k

Strategic Product ACV	Commission
All values	9% ACV

**Strategic Products**  
Quota = 200k

Strategic Product ACV	Commission
All values	4.5% ACV

**Strategic Products**  
Quota = 200k

Strategic Product ACV	Commission
All values	4.5% ACV

# A simple example – relative rate approach

*Holding the relative rate steady rather than the component weights provides the same emphasis on Strategic Products across varying quotas*

**Established Products**  
Quota = 600k

ACV Added % Annual Quota	Commission (in range)
0 – 99.9%	6% ACV
100% or more	12% ACV

**Established Products**  
Quota = 600k

ACV Added % Annual Quota	Commission (in range)
0 – 99.9%	5% ACV
100% or more	10% ACV

**Established Products**  
Quota = 700k

ACV Added % Annual Quota	Commission (in range)
0 – 99.9%	4.5% ACV
100% or more	9% ACV

**Strategic Products**  
Quota = 100k

Strategic Product ACV	Commission
All values	9% ACV

**Strategic Products**  
Quota = 200k

Strategic Product ACV	Commission
All values	7.5% ACV

**Strategic Products**  
Quota = 200k

Strategic Product ACV	Commission
All values	6.75% ACV

# How to design a relative rate plan

## Identify the core measure (M1)

- This is the primary goal or quota, the most important accountability
- Payout rates typically accelerate over quota

## Identify the secondary measure (M2)

- This may be a measure that is highly volatile (low quota accuracy)
- This may be associated with a secondary responsibility
- This may be an area for special emphasis

## Determine the correct relative rate (M1:M2)

- Less than 100% for less desirable (but still important) sales
- More than 100% for emphasized sales

## Calculate the Base Rate


- This is the average 0-100% rate for the core measure
- Use the formula below

## Determine the core measure payout

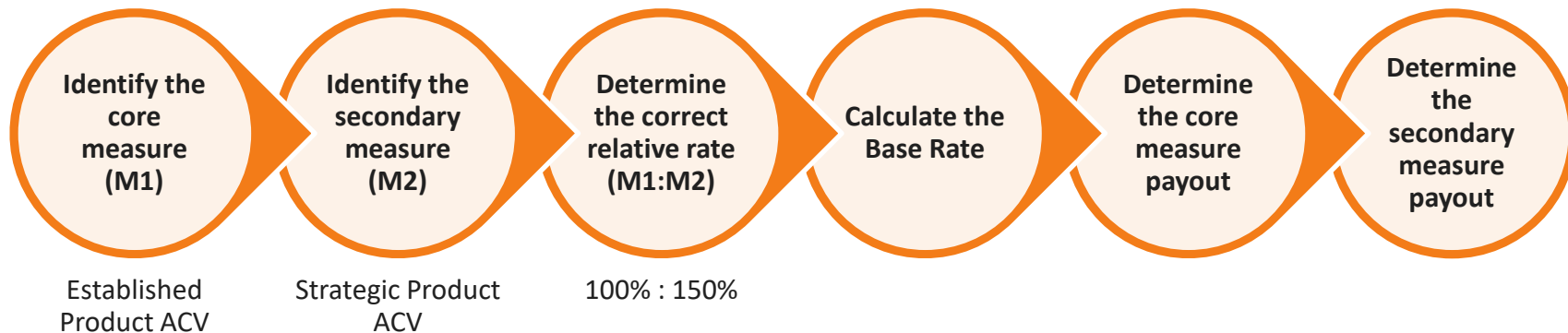
- Use the Base Rate as the average 0-100% rate for the core measure
- May add deceleration below quota, acceleration over quota, etc.

## Determine the secondary measure payout

- Use [Base Rate] x [Relative Rate<sub>M2</sub>] as the average 0-100% rate for the secondary measure
- Usually this measure is paid at a single rate across all attainment levels


$$\text{Base Rate} = [\text{Target Incentive}] / ([\text{Quota}_{M1}] + [\text{Quota}_{M2}] \times [\text{Relative Rate}_{M2}])$$

# The simple example – determining the rates



Quotas		Base Rate Calculation*	Established Product	Strategic Product
Established Product	Strategic Product		0-100% Rate	0-100% Rate
600,000	100,000	45,000 / (600k + 100k x 150%) = 6.00%	<b>6.00%</b>	6.00% x 150% = <b>9.00%</b>
600,000	200,000	45,000 / (600k + 200k x 150%) = 5.00%	<b>5.00%</b>	5.00% x 150% = <b>7.50%</b>
700,000	200,000	45,000 / (700k + 200k x 150%) = 4.50%	<b>4.50%</b>	4.50% x 150% = <b>6.75%</b>

\*Base Rate = [Target Incentive] / ([Quota<sub>M1</sub>] + [Quota<sub>M2</sub>] x [Relative Rate<sub>M2</sub>])



# An Excel-based “tuner” is invaluable to really understand how the plan will work

Plan Tuner				Sales Person View		
<b>Target Incentive</b>	45,000	annual		Base Rate 6.00%	Weights	
<b>Accelerated component</b>	<b>Measure</b>	<b>Quota</b>	<b>Relative Rates</b>	80%	<b>Existing Products Payout Table</b>	
	Existing Products	600,000	100%		<b>Quota Attainment</b>	<b>Commission Rate</b>
<b>Straight-line component</b>	<b>Measure</b>	<b>Quota</b>	<b>Relative Rates</b>	20%	<b>Strategic Products Payout Table</b>	
	Strategic Products	100,000	150%		<b>Quota Attainment</b>	<b>Commission Rate</b>
					0% - 99.9%	6.00%
					100% or more	12.00%
					Strategic Products	9.00%

# Including a calculator in the tuner can show payouts in different scenarios

Sales Person View	
<b>Existing Products Payout Table</b>	
Quota Attainment	Commission Rate
0% - 99.9%	6.00%
100% or more	12.00%
<b>Strategic Products Payout Table</b>	
Quota Attainment	Commission Rate
Strategic Products	9.00%

Calculator	
Actuals	Payout
100% Quota	
600,000	
600,000	36,000
0	0
100,000	9,000
	<u>45,000</u>

At Quota on both components

Calculator	
Actuals	Payout
100% Quota	
600,000	
600,000	36,000
0	0
0	0
	<u>36,000</u>

No Strategic Products

Calculator	
Actuals	Payout
83% Quota	
500,000	
500,000	30,000
0	0
200,000	18,000
	<u>48,000</u>

100k over on Strategic Products, 100k under on Existing Products

Calculator	
Actuals	Payout
117% Quota	
700,000	
600,000	36,000
100,000	12,000
200,000	18,000
	<u>66,000</u>

Over by 100k on both Strategic and Existing Products

# An Excel-based “tuner” is invaluable to really understand how the plan will work

Plan Tuner				Sales Person View					
Target Incentive	45,000	annual	Base Rate 6.00%	Weights					
Accelerated component	Measure	Quota	Relative Rates	80%	<b>Existing Products Payout Table</b>				
	Existing Products	600,000	100%		<table border="1"> <thead> <tr> <th>Quota Attainment</th> <th>Commission Rate</th> </tr> </thead> <tbody> <tr> <td>0% - 99.9%</td> <td>6.00%</td> </tr> <tr> <td>100% or more</td> <td>12.00%</td> </tr> </tbody> </table>	Quota Attainment	Commission Rate	0% - 99.9%	6.00%
Quota Attainment	Commission Rate								
0% - 99.9%	6.00%								
100% or more	12.00%								
Straight-line component	Measure	Quota	Relative Rates	20%	<b>Strategic Products Payout Table</b>				
	Strategic Products	100,000	150%		<table border="1"> <thead> <tr> <th>Quota Attainment</th> <th>Commission Rate</th> </tr> </thead> <tbody> <tr> <td>Strategic Products</td> <td>9.00%</td> </tr> </tbody> </table>	Quota Attainment	Commission Rate	Strategic Products	9.00%
Quota Attainment	Commission Rate								
Strategic Products	9.00%								

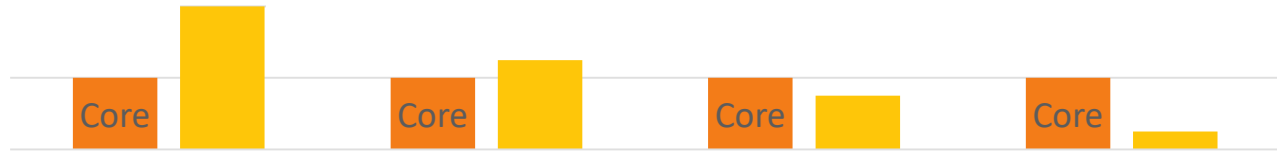
**Original Version**  
Strategic Products relative rate set at 150% of the Existing Products rate

Plan Tuner				Sales Person View					
Target Incentive	45,000	annual	Base Rate 5.00%	Weights					
Accelerated component	Measure	Quota	Relative Rates	67%	<b>Existing Products Payout Table</b>				
	Existing Products	600,000	100%		<table border="1"> <thead> <tr> <th>Quota Attainment</th> <th>Commission Rate</th> </tr> </thead> <tbody> <tr> <td>0% - 99.9%</td> <td>5.00%</td> </tr> <tr> <td>100% or more</td> <td>10.00%</td> </tr> </tbody> </table>	Quota Attainment	Commission Rate	0% - 99.9%	5.00%
Quota Attainment	Commission Rate								
0% - 99.9%	5.00%								
100% or more	10.00%								
Straight-line component	Measure	Quota	Relative Rates	33%	<b>Strategic Products Payout Table</b>				
	Strategic Products	100,000	300%		<table border="1"> <thead> <tr> <th>Quota Attainment</th> <th>Commission Rate</th> </tr> </thead> <tbody> <tr> <td>Strategic Products</td> <td>15.00%</td> </tr> </tbody> </table>	Quota Attainment	Commission Rate	Strategic Products	15.00%
Quota Attainment	Commission Rate								
Strategic Products	15.00%								

**Alternative**  
Strategic Products relative rate set at 300% of the Existing Products rate

- Strategic Products rate goes up
- Existing Products rate comes down to fund it

# How high or low should the relative rate go?



Relative rate on secondary component	High	Increased	Reduced	Low
Types of secondary components	<ul style="list-style-type: none"> <li>• Low volume strategic products</li> <li>• Very long term length</li> <li>• Very difficult to sell</li> <li>• Highly profitable</li> </ul>	<ul style="list-style-type: none"> <li>• Higher volume strategic products</li> <li>• Longer term length</li> <li>• More profitable</li> </ul>	<ul style="list-style-type: none"> <li>• Non-core products/ services</li> <li>• Less favorable deal terms</li> <li>• Less profitable</li> </ul>	<ul style="list-style-type: none"> <li>• Add-on product or service</li> <li>• Unfavorable deal terms or profitability</li> </ul>
Relative rate range	200% to 300%	125% to 200%	50% to 75%	15% to 50%
Uplift range	100% to 200%	25% to 100%	-50% to -25%	-85% to -50%

# Use Cases

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# Use case 1: Uplift commission rates for preferred deal terms

Plan Tuner					Sales Person View	
<b>Target Incentive</b>	75,000	annual		Base Rate	Weights	
				2.96%		
<b>Accelerated component</b>	<b>Measure</b>	<b>Quota</b>	<b>Relative Rates</b>	79%		
	ACV Added	2,000,000	100%			
<b>Uplift components</b>	<b>Measure</b>	<b>Quota</b>	<b>Uplift</b>			
	2 Year Term	500,000	50%	10%		
	3 Year Term	200,000	100%	8%		
	Multi-Year Paid Upfront	350,000	25%	3%		
				<b>100%</b>		

ACV Added Payout Table	
Quota Attainment	Commission Rate
0% - 99.9%	2.96%
100% or more	5.91%

Commission Adders for Uplift	
Category	Added Commission
2 Year Term	+1.48%
3 Year Term	+2.96%
Multi-Year Paid Upfront	+0.74%

## Base Rate calculation

$$\begin{aligned}
 [\text{Base Rate}] &= [\text{Target Incentive}] / \sum ( [\text{Quota}_{\text{component}}] \times [\text{Relative Rate}_{\text{component}}] ) \\
 &= 75\text{k} / (2\text{M} \times 100\% + 500\text{k} \times 50\% + 200\text{k} \times 100\% + 350\text{k} \times 25\%) = 2.96\%
 \end{aligned}$$

- All “uplift components” are characteristics of the same sales that are in the core accelerated component
- Uplift components are preferred deal characteristics that result in higher commission rates for those deals, and may be additive (e.g., 2 year term, paid up-front results in an additional 1.48 + 0.74 = 2.22% commission)
- Uplift adders are applied to the deal uniformly across all levels of attainment against the core ACV Added component
- Implied weights on some of the components are so small they would not qualify as meaningful in traditional weighted plan designs, but the commission rates for the uplifts are enough to focus attention and effort
- Since the uplift components are straight-line (no acceleration), less accurate quotas won’t result in significant unintended consequences
- The core component keeps the focus on overall quota attainment as the primary emphasis

## Use case 2: Services Revenue important but less valuable

Plan Tuner					Sales Person View	
<b>Target Incentive</b>	75,000	annual		Base Rate	Weights	
				1.88%		
<b>Accelerated component</b>	<b>Measure</b>	<b>Quota</b>	<b>Relative Rates</b>		75%	
	Product Revenue	3,000,000	100%			
<b>Straight-line component</b>	<b>Measure</b>	<b>Quota</b>	<b>Relative Rates</b>		25%	
	Services Revenue	2,000,000	50%			
					<b>100%</b>	

Product Revenue Payout Table	
Quota Attainment	Commission Rate
0% - 99.9%	1.88%
100% or more	3.75%

Services Revenue Payout Table	
Quota Attainment	Commission Rate
Services Revenue	0.94%

*Services Revenue > quota credited only after Product Revenue > quota*

### Base Rate calculation

$$\begin{aligned}
 [\text{Base Rate}] &= [\text{Target Incentive}] / \sum ([\text{Quota}_{\text{component}}] \times [\text{Relative Rate}_{\text{component}}]) \\
 &= 75\text{k} / (3\text{M} \times 100\% + 2\text{M} \times 50\%) = 1.88\%
 \end{aligned}$$

- The two measures are linked via a cross-gate limiting over-target payout on Services until the Product Revenue quota has been attained
- This plan could be designed as a traditional weighted plan if all sales people have Product and Services Revenue components with similar relative quotas

# Use case 3: Discourage discounting

Plan Tuner				
<b>Target Incentive</b>	75,000	annual		
			Base Rate	Weights
			1.50%	
<b>Accelerated component</b>	<b>Measure</b>	<b>Quota</b>	<b>Relative Rates</b>	100%
	Sales	5,000,000	100%	
<b>Uplift components</b>	<b>Measure</b>	<b>Quota</b>	<b>Uplift</b>	
	90% List or More	2,500,000	20%	10%
	80-89.9% List	2,500,000	-20%	-10%
	Less than 80% List		-50%	0%
			<b>100%</b>	

Sales Person View	
<b>Sales Payout Table</b>	
<b>Quota Attainment</b>	<b>Commission Rate</b>
0% - 99.9%	1.50%
100% or more	3.00%
<b>Commission Adders for Uplift</b>	
<b>Category</b>	<b>Added Commission</b>
90% List or More	+ 0.30%
80-89.9% List	- 0.30%
Less than 80% List	- 0.75%

## Base Rate calculation

$$\begin{aligned}
 [\text{Base Rate}] &= [\text{Target Incentive}] / \sum ([\text{Quota}_{\text{component}}] \times [\text{Relative Rate}_{\text{component}}]) \\
 &= 75\text{k} / (5\text{M} \times 100\% + 2.5\text{M} \times 20\% + 2.5\text{M} \times -20\% + 0 \times 25\%) = 1.50\%
 \end{aligned}$$

- Two of the three uplifts are actually decreases in the payout to discourage different levels of discounting, created with a negative “uplift”
- One of the three, “Less than 80% List,” is present without a quota; this means that we aren’t predicting this outcome as expected, and while we may take deals that are deeply discounted there will be a significant reduction in the payout for those deals
- This arrangement leverages the behavioral science principle that a perceived reduction is a powerful deterrent



# Use case 4: Hybrid weighted + relative rate

Plan Tuner				
<b>Target Incentive</b>	50,000	annual		Base Rate Weights 46.15%
<b>Accelerated component</b>	<b>Measure</b>	<b>Quota</b>	<b>Weights</b>	
	MRR Added	50,000	60%	46%
<b>Uplift components</b>	<b>Measure</b>	<b>Quota</b>	<b>Uplift</b>	
	0-2 Year Term	2,500	0%	0%
	3-4 Year Term	35,000	25%	8%
	5-9 Year Term	12,500	50%	6%
	10 Year Term		100%	0%
<b>Independent component</b>	<b>Measure</b>	<b>Quota</b>	<b>Weight</b>	
	New Logos Added	20	40%	40%
				<b>100%</b>

Sales Person View	
<b>MRR Added Payout Table</b>	
<b>Quota Attainment</b>	<b>Commission Rate</b>
0% - 99.9%	46% MRR
100% or more	92% MRR
<b>Commission Adders for Uplift</b>	
<b>Category</b>	<b>Added Commission</b>
0-2 Year Term	+0% MRR
3-4 Year Term	+12% MRR
5-9 Year Term	+23% MRR
10 Year Term	+46% MRR
<b>New Logos Added Payout Table</b>	
<b>Quota Attainment</b>	<b>Commission Rate</b>
New Logos Added	1,000 each

## Base Rate calculation

$$\begin{aligned}
 [\text{Base Rate}] &= [\text{Target Incentive}] / \sum ( [\text{Quota}_{\text{component}}] \times [\text{Relative Rate}_{\text{component}}] ) \\
 &= (50k \times 60\%) / (50k \times 100\% + 2.5k \times 0\% + 35k \times 25\% + 12.5k \times 50\% + 0k \times 100\%) = 46\%
 \end{aligned}$$

- Monthly Recurring Revenue (MRR) Added is the core measure
- 40% of the target incentive is set aside for the New Logos component, leaving 60% to be used in the relative rate calculation on MRR

# Use case 5: Uplifts and straight-line components together

Plan Tuner				
<b>Target Incentive</b>	75,000	annual		Base Rate Weights 2.73%
<b>Accelerated component</b>	<b>Measure</b>	<b>Quota</b>	<b>Relative Rates</b>	
	FYCV	1,500,000	100%	55%
<b>Uplift components</b>	<b>Measure</b>	<b>Quota</b>	<b>Uplift</b>	
	Multi-Year Paid Upfront	500,000	15%	3%
<b>Straight-line components</b>	<b>Measure</b>	<b>Quota</b>	<b>Relative Rates</b>	
	OYCV	1,000,000	80%	29%
	Services Revenue	1,500,000	25%	14%
				<b>100%</b>

Sales Person View	
<b>FYCV Payout Table</b>	
<b>Quota Attainment</b>	<b>Commission Rate</b>
0% - 49.9%	2.18% FYCV
50% - 99.9%	3.27% FYCV
100% - 149.9%	5.45% FYCV
150% or more	3.27% FYCV
<b>Commission Adders for Uplift</b>	
<b>Category</b>	<b>Added Commission</b>
Multi-Year Paid Upfront	+ 0.41% FYCV
<b>OYCV &amp; Services Revenue Payout Table</b>	
<b>Measure</b>	<b>Commission Rate</b>
OYCV	2.18%
Services Revenue	0.68%
<i>No OYCV payout over target until FYCV over quota</i>	

## Base Rate calculation

$$\begin{aligned}
 [\text{Base Rate}] &= [\text{Target Incentive}] / \sum ([\text{Quota}_{\text{component}}] \times [\text{Relative Rate}_{\text{component}}]) \\
 &= 75\text{k} / (1.5\text{M} \times 100\% + 0.5\text{M} \times 15\% + 1\text{M} \times 80\% + 1.5\text{M} \times 25\%) = 2.73\%
 \end{aligned}$$

- Major components are First Year Contract Value (FYCV), Out Year Contract Value (OYCV), and Services Revenue; modest uplift for Multi-Year Paid Upfront
- A more nuanced accelerator table is used for the primary component
- The uplift adds comp for Multi-Year Paid Upfront, and the relative rate causes a lower commission rate on the less important components (OYCV, Services)

# Summary and Additional Information

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# Traditional weighted measure plan or relative rate plan?

Key characteristics	Use <b>traditional weighted plan</b> design when...	Consider a <b>relative rate plan</b> when...
<b>Plan measures</b>	<ul style="list-style-type: none"> <li>Somewhat independent of one another (e.g., Product Revenue and Region Margin)</li> </ul>	<ul style="list-style-type: none"> <li>Subsets of one another (e.g., Total Sales, New Account Sales)</li> </ul>
<b>Quotas</b>	<ul style="list-style-type: none"> <li>Consistent across individuals in the same role, or at least in a consistent relationship among the measures (e.g., Services Quota = 75% of Product Quota)</li> </ul>	<ul style="list-style-type: none"> <li>Vary significantly from one person to the next based on differences in the opportunity from territory to territory</li> </ul>
<b>Weights/emphasis</b>	<ul style="list-style-type: none"> <li>Emphasized categories are substantial enough to merit at least 20% weight</li> </ul>	<ul style="list-style-type: none"> <li>Emphasized categories are worthy of significantly higher payout rates, but may not be expected to deliver 20% or more of the target incentive</li> </ul>
<b>Payout form</b>	<ul style="list-style-type: none"> <li>Goal-based incentive communicated as % target paid vs. % goal attained</li> </ul>	<ul style="list-style-type: none"> <li>Commission incentive form communicated as % of sales (may include Individual Commission Rates)</li> </ul>

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For further insight: [cygnalgroupp.com/rel-rate/](https://cygnalgroupp.com/rel-rate/)



**Sample Excel-based** tuner may be downloaded



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