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Steady Selling for Stable Revenue

Linearity Incentives that Actually Work

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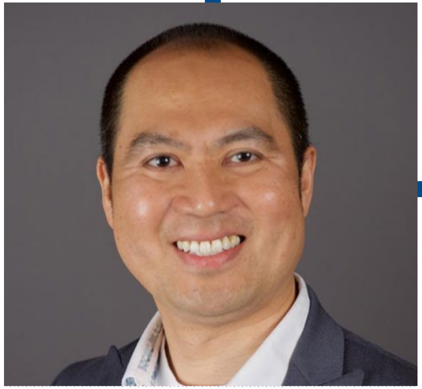
Panelists

Rick Butler
VP Global Sales Compensation
ServiceNow

Salespeople: 4,091
Comp plans: 128

Donya Rose
Managing Principal
The Cygnal Group

Clients served: 200+



Karey Tsang
Head of GTM Plans and Sales Incentive Strategy
Red Hat / IBM

Salespeople: 5,000
Comp plans: 100

“Linearity” is…

Steady selling through a measurement period, usually a year, quarter or month

Simple illustrative example

Month	Steady Sellling			Quarterly Hockey Stick Selling			Annual Hockey Stick Selling		
	New Bookings	Revenue	Cumulative Revenue	New Bookings	Revenue	Cumulative Revenue	New Bookings	Revenue	Cumulative Revenue
1	100	0	0	20	0	0	20	0	0
2	100	100	100	60	20	20	30	20	20
3	100	200	300	220	80	100	40	50	70
4	100	300	600	20	300	400	60	90	160
5	100	400	1000	60	320	720	80	150	310
6	100	500	1500	220	380	1100	90	230	540
7	100	600	2100	20	600	1700	90	320	860
8	100	700	2800	60	620	2320	90	410	1270
9	100	800	3600	220	680	3000	120	500	1770
10	100	900	4500	20	900	3900	160	620	2390
11	100	1000	5500	60	920	4820	180	780	3170
12	100	1100	6600	220	980	5800	240	960	4130
Total	**1200**	**6600**		**1200**	**5800**		**1200**	**4130**	

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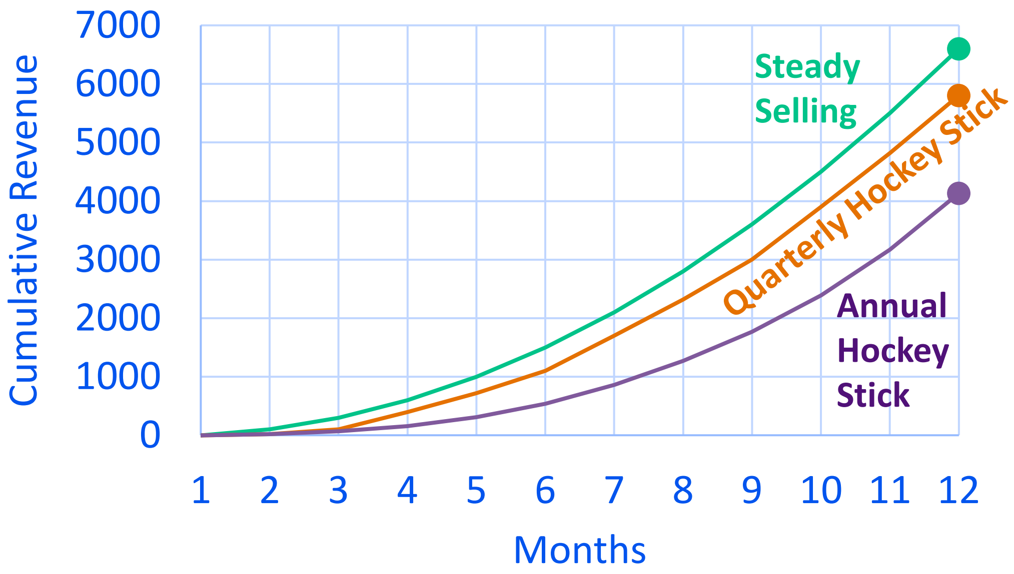

Total revenue for the year is the final cumulative value at month 12

Quarterly non-linearity is costly in terms of both workload and revenue,

Annual non-linearity is severely costly to revenue

"Linearity" – why is it valuable?

Maximize Revenue	Manage Workload & Service Levels	Predict Financial Results
In recurring revenue businesses measuring sellers on bookings, good linearity maximizes in-year recognized revenue	Steady selling spreads the work to process orders more evenly so that product is shipped/deployed more quickly for all orders	Predictability of financial results is improved since big unmanageable spikes are avoided

What works against Linearity?

The period-end leadership push to maximize sales

- **Discounts** are offered and orders are closed before period (e.g., quarter) end
- **The pipeline** for the next period is depleted leading to fewer sales early in the next period

Hockey Stick Selling

Market expectations of discounts and more flexible terms at period-end

- **Some industries have "trained" their customers** to hold off buying until quarter- or year-end with the expectations that discounts and contract terms may be more favorable

Weighted measure for Linearity

The concept

- Weight Linearity at 10% of the target incentive
- Pay 7% of the annual target incentive for each of Q1, Q2, Q3 if year-to-date attainment is at or above the year-to-date goal (21% for all three ≈ 2x target)
- Ensure total plan upside offers 2x payout at 90th percentile performance by adding acceleration on the remaining components

Advantages

- Very clear and very straightforward to manage
- Includes both risk and upside

Risks

- A bit of a “blunt instrument” due to binary payout
- Reduces incentive value of the core sales measure
- May result in pushing Q4 sales into Q1

Highest rates in Q1, lowest in Q4

The concept

- Adjust commission rates by quarter so that sales in Q1 are worth more to the seller than in Q2, Q2 more than Q3, etc.
- Rates relative to the overall annual base rate might be 1.2xBR for Q1, 1.1xBR for Q2, 0.9xBR for Q3, 0.8xBR for Q4 (must be tuned to take seasonality into account)
- If acceleration is annual, then over the annual quota a fixed commission adder is offered

Advantages

- Makes early selling clearly advantageous

Risks

- Different commission rates each quarter lead to complexity and confusion
- May result in pushing Q4 sales into Q1

The concept

Advantages

Risks

Commission adder over quota for Q1, Q2, Q3

The concept

- Pay additional commission for all sales over quota in Q1, Q2, Q3
- Offer the highest rate for Q1, less for Q2, even less for Q3
- Can be quarter by quarter, but year-to-date over quota may be better (depends on sales cycle length)
- If normal acceleration is based on annual quota attainment, reduce that acceleration somewhat to offset this

Advantages

- Easy to understand and calculate
- Clear upside for higher sales early in the year, and the higher the early over-performance the higher the payout

Risks

- Communicated as upside without risk
- May result in pushing Q4 sales into Q1

Quarterly hold-back until 100%

The concept

- Hold back 20% of the payout each quarter until 100% of the quarter quota is achieved
- Pay the full hold-back at 100% attainment (or 1% of the hold-back for each 1% over 80% of quota)

Advantages

- Leverages the Endowment Effect (more highly valuing what I feel is or should be mine)
- Reasonably straightforward

Risks

- Perceived as punitive (no upside)
- May result in pushing some sales to manage the attainment for each quarter

Independent quarter plans

The concept

- Let each quarter (or month) stand alone with its own goal and acceleration, independent of all other quarters
- Acceleration will need to somewhat less than on an annual plan due to the expected increase in over-attainment for quarters only

Note that this only works for shorter cycle selling (3 months or less)

Advantages

- Strong incentive to close every quarter strong
- Fresh start each quarter

Risks

- May result in quarterly hockey sticks
- May result in over-payment vs. an annual plan for those with some very high quarters and some very low quarters

Focus leaders/teams on linearity

The concept

Because leaders' results are made up of more sales than individual contributors, it can be reasonable to expect leaders to deliver steady selling when individual contributors really can't

- Apply linearity incentives to leader plans without any linearity incentive for individual contributors

OR

- Offer teamed linearity incentives to individual contributors

Advantages

- Holds the sales organization accountable for steady selling even when that's not a reasonable expectation for each individual

Risks

- Leaders may be frustrated trying to motivate individuals to support steady selling when they have no/limited incentive to do so

More frequent payouts

The concept

- Move quarterly plans to monthly to drive interest in maximizing sales each month
- Acceleration may remain quarterly or annually, or may move to monthly
- It is also possible to offer modest monthly acceleration in combination with more dramatic annual acceleration

Advantages

- Drives interest in strong performance every month

Risks

- More frequent plan calculation, exception handling, admin swirl
- May not be appropriate for longer cycle sales roles

Additional tough topics in recurring revenue sales comp

1. *Rewarding for term length (TCV, ACV, FYV/OYV)*
2. *Rewarding for renewals*
3. *Crediting for early renewals and late renewals*
4. *Crediting and paying for incremental recurring revenue*
5. *Rewarding for adoption/consumption*
6. *Incentivizing price realization (min discounts)*
7. *Rewarding for healthy pipelines*
8. *Rewarding for customer satisfaction*

THANK YOU