

Sales Comp for

# Consumption Based Pricing

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**Rick Butler**

VP Global Sales  
Compensation  
**ServiceNow**

Salespeople: 5,138  
Comp plans: 190



**Vince DaCosta**

Director, Global  
Sales Compensation  
**Databricks**

Salespeople: >2700  
Comp plans: 70



**Donya Rose**

Managing  
Principal  
**Cygnal Group**

> 200  
clients served



**Kenny Smith**

Sales Incentive Plan  
Design Lead  
**Red Hat**

Salespeople: 5,000  
Comp plans: 85

# Agenda

- 1 What is consumption-based pricing**  
.... and how does it make sales comp challenging?
- 2 Good ideas from 3+ businesses**  
.... and how that's going for them
- 3 Audience ideas and experiences**  
.... and what has worked (or failed)
- 4 Summary of options**  
.... and where to find some follow-up information

# Consumption-based (CB) pricing/selling is everywhere and growing!

## Examples of offerings using consumption-based pricing

- Municipal utilities (water, electricity...)
- Pay-per-view
- Some mobile data plans
- Ride sharing based on distance/time
- EV charging
- Cloud computing and utility computing

## Synonyms

- Consumption-based
- Usage-based
- Metered billing
- Pay-as-you-go

## What we'll call the rest

- Committed revenue

# Why businesses are moving to CB selling/pricing

## Popularity of Cloud & SaaS

- Experience with CB pricing in one area makes customers request it in another

## Flexibility & scalability

- Pay only for the resources/services used
- Valuable when demand varies

## Cost efficiency

- Costs align with usage
- Matters to cash-constrained businesses

## Customer-centric

- Able to cater to different customer needs

## Customer incentive for efficiency

- Customers minimize waste and optimize usage

## Data-driven insights

- Usage data enables provider to focus on customer behavior, preferences, and trends
- Offerings improve

# Why is this a hard compensation challenge?

## Sales comp principle

Finish paying for the sale when...

1. The salesperson has done most of what is needed for this opportunity, and should focus on new opportunities

AND

2. We know the value of what has been sold

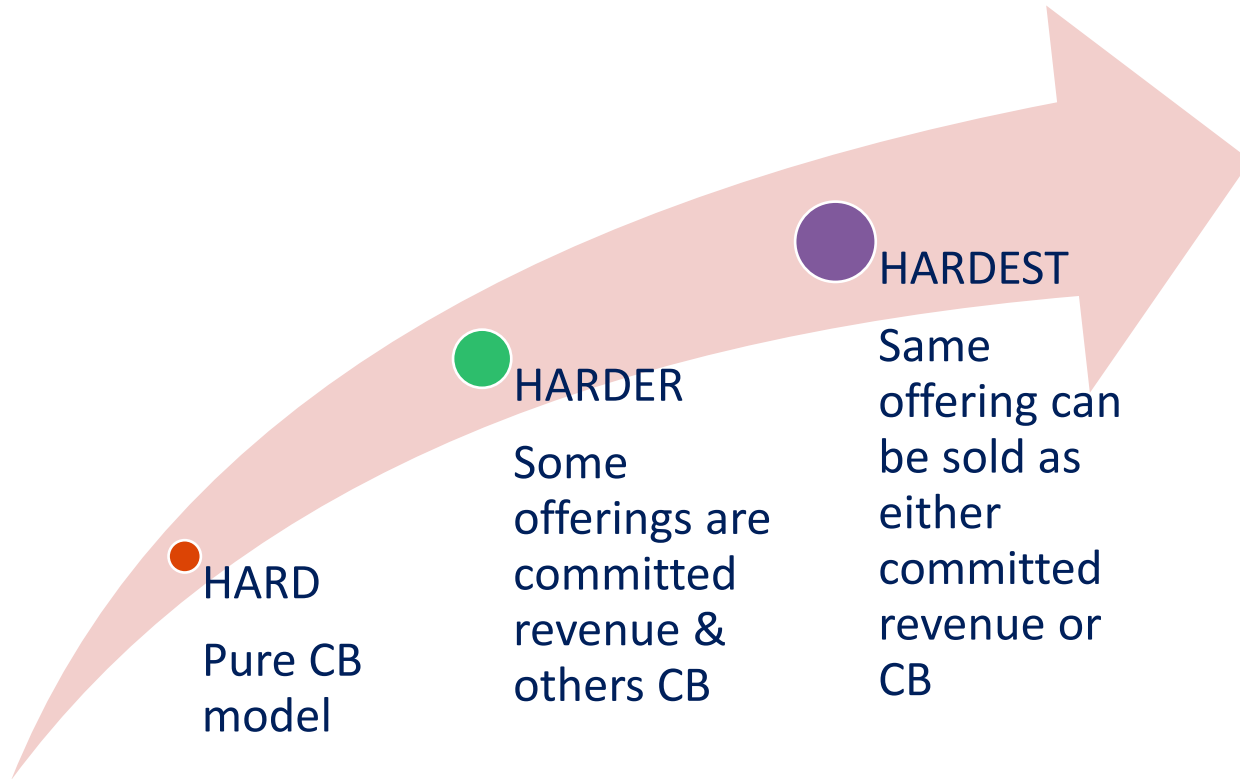
## Consumption-based reality

Sales effort may either

- End with contract signature, or
- Continue indefinitely

The value of what has been sold is only known month by month (can't credit/pay much at contract signature)

# Sometimes it's hard, and sometimes it's even harder



# A FEW INSTRUCTIVE EXAMPLES



# ServiceNow CB approach

## Primary Metric

Net New ACV (NNACV)

- Standard for quotas
- Standard for crediting

Subscriptions

- Non-cancelable
- 12-month to 60-month terms

## Consumption Approach

Near-Term

- Activations
- Monthly baseline w/manual true-ups

Long-Term

- Workflow Transactions
- Telemetry

# databricks Consumption Based Approach

## Commits

### Quota

- New Business + Upsells + Renewals + PS&T + New Logos = Consolidated Bookings (ARR)

### Crediting

- Various modifiers like New Logo, Multi-Year, Renewals, etc..
- Rollover eligibility

### Calculation

- Derived off a combination of BCR, defined accelerator rate table
- Payment aligned with billing frequency



## Incremental Consumption

### Quota

- Usage difference between total consumption target and baseline, structured off DBU (Databricks Unit)

### Crediting

- Actual usage within the period
- Various product modifier uplifts to drive strategically

### Calculation

- Derived off a combination of BCR, defined accelerator rate table
- Payment aligned with period of consumption



# Red Hat Consumption Based Approach

## Red Hat's Open Source Journey

Installed base: enterprise Linux OS

- Conventionally distributed
- Running on individual machines
- Value delivered at install or via maintenance, services

Today: server-to-edge automation

- Hybrid purchasing: commit and consume
- Hybrid deployment: on prem, private and public clouds
- Value delivered over time through automation

## Consumption: Goals and Challenges

Goal: link comp to value to client and RH

- Performance measures that apply to commitment and consumption
- Align with industry practices to recruit

Strategic Challenges:

- Clients may commit, consume, or both
- Defining “Recurring Revenue” across LOBs
- Roles driving demand vs. delivering value
- Metrics and performance ranges aligned to selling effort
- New systems, governance, communication

# AUDIENCE DISCUSSION

Do you have a consumption-based challenge you could share?

What approaches have you tried to incentivize needed behaviors?

What worked well, or not so well?

And what about the challenges with setting quotas/goals for consumption-based sales roles?

# SOME BASIC FRAMEWORKS FOR CB COMP

# Estimate, pay up-front, true-up

## How it works

- A baseline level of ongoing consumption is contracted at the start of the term
- A fixed price covers the baseline level of consumption
- Pricing for period overages is agreed upon and applied when incurred
- After n periods of overage during the term, the baseline may be reset

## Use when...

- There's a low expectation of usage exceeding baseline
- Metrics are easy to define
- Overages are easily identified

## Risks

- Some overages may go undetected leading to lost revenues
- Users may dispute overage or refuse to re-baseline

# Pay up-front for contract + payments for units consumed

## How it works

- Both Commit and Consumption quotas set for the AE, Mgmt, Overlays, etc..
- Booking/ARR value is contracted for a specific term and relieves Commit quota
- Customer starts to use/consume the product or services, which relieves Consumption quota

## Use when...

- Company strategy is to incent at both the point of contract AND when services are consumed
- Ability to accurately measure down to account and product level

## Risks

- Data loss gaps which could cause forecasting, quota setting and commissions processing issues
- Unforeseen consumption use spikes

# Pay only for consumption

## How it works

- Salespeople are goaled, measured and paid based on invoiced sales each month
- New contracts count over the life of the contract, creating an annuity tail of sales credit and comp
- Later period sales (e.g., after the first 12 months) may be paid or credited at a reduced rate to reduce the annuity and make new sale more lucrative

## Use when...

- Salespeople are expected to land new accounts and then maintain them for the duration (“hunt to farm”)
- The sales role is very high prominence and business is portable if sellers leave

## Risks

- Long tenured sellers may become comfortable with little or no growth
- New hires struggle to make enough money to get by as they scale “their business”



# Consumption growth: Monthly revenue growth + in-year total

## How it works

- Establish an assigned book of existing (+ prospect) accounts, and a goal for monthly growth in revenue from those accounts
- Pay straight-line for attainment of monthly / year-to-date revenue growth goals
- Pay a year-end upside bonus for total revenue growth attainment year-over-year above goal (goal = MRR goal x 78)

*See example next page*

## Use when...

- Business is fully consumption-based
- Sales cycle is short with multiple closes each month
- Steady added MRR each month is a priority, and early in the year is better

## Risks

- Frequent account movement among sellers makes measurement difficult, especially for the year-end upside

# Pay up-front for contract + payments for units consumed

## ILLUSTRATIVE EXAMPLE

Yearly Growth Quota **\$390,000**

Annual Incentive Target **\$50,000**

### Monthly MRR Added Incentive

#### All Attainment Values

Payout is attainment of the Net MRR Added Quota x Monthly Target Incentive

*Example: 85% of quota pays 85% of monthly target incentive, and 125% of quota pays 125% of monthly target incentive*

Total MRR Added Quota **\$60,000**

### Net Revenue Growth over Total Year Quota Commission

Net Revenue Growth % Total Year Quota	Commission in range	Payout at top of range
0% - 99.9%	0%	\$0
100% - 149.9%	26%	\$50,000
150% or more	13%	uncapped

*Once Total Net Revenue Growth is over the Total Year Quota, a commission is earned in addition to the Monthly MRR Added payout at left*

See the web post at the link on the following page for a downloadable Excel model of this plan concept

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