

The Ultimate Guide to

SALES COMPENSATION

CREATE A MOTIVATED SALES TEAM
ALIGNED WITH COMPANY GOALS



SALES COMPENSATION OVERVIEW

Having a well-structured, results-oriented compensation plan is essential to motivating your sales team and building a fast growing business.

In this guide, you will learn more about the three stages of designing an effective sales compensation plan and how to create your own.

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01 PREPARING YOUR SALES COMPENSATION PLAN

ASSEMBLING YOUR COMPENSATION TEAM

When creating your sales compensation plan, it's important to include senior leaders from across the company to contribute.

This will help ensure that your plan is aligned cross-departmentally.

SALES AND MARKETING

Sales and marketing should work together to help define the sales goals, process, and territories of the role.

The senior sales leader should also manage expectations about sales rep capabilities while pushing for results.

The senior marketing leader should share information on lead generation plans, new product releases or company announcements that could affect sales.

FINANCE AND OPERATIONS

A finance or operations leader should be included to help analyze the strategic and administrative financial aspects.

This may include creating “what-if” scenarios, conducting return-on-investment

calculations, analyzing affordability, setting up tracking and reporting and exploring the payout options.

An operations leader will also be able to tell you what processes need to change based on how you want to structure the sales compensation plan.

SPECIALIZED SALES RECRUITING FIRM

A talent agency or recruiting firm that specializes in sales can be a valuable asset to your team, especially if you don't have recent experience hiring sales reps or only hire a few per year.

Since these specialized firms likely fill 100s of sales positions per year, they can help you assess the market value of specific roles you are trying fill and help you plan out your hiring to hit your sales goals.

With the right mix of people on your compensation team, you will be able to design a sales compensation plan that meets the needs of your company as well as the approval of department leaders.

ALIGNING YOUR SALES COMPENSATION PLAN TO YOUR BUSINESS GOALS



Successful sales compensation plans have a direct impact on the bottom line of your business. It's important to design a plan with the company's ultimate goals in mind while motivating each sales professional on your team to perform.

When meeting with your sales compensation team, you should identify your corporate goals for the year, revenue targets, requirements for new product or service introductions, major promotions, as well as your current personnel structure.

For example, your goals might be to place more emphasis on sales profitability or winning business for a set of new products.

Your goals should directly align with your compensation plan in order to drive the right behaviors. This alignment ensures that both sales leaders and sales professionals know their priorities, understand the rewards for achieving their goals, and ultimately how their results impact the company.

If you don't align your sales goals with your company goals, you risk rewarding behavior that conflicts with your company's desired outcomes.

QUESTIONS YOU NEED TO ANSWER

Below, we've included essential questions you need to answer before moving forward with designing your sales compensation plan. Your answers will help you think through what type of compensation plan you want to use or modifications you need to add, how rewarding and how punishing you want your plan to be, and how to tailor it to your company's specific needs.



1. GIVEN BUSINESS STAGE, STRUCTURE, AND TARGET MARKET, WHAT LEVEL OF SALES PROFESSIONAL IS NECESSARY?

Companies often start off thinking that they want a junior sales rep / junior compensation level, but their environment demands self-starters, low training needs, complex sales scenarios, and even remote work. These characteristics match a senior rep. Don't hire too junior or under pay for what you need, or you will struggle with costly ongoing turnover.

2. DO I NEED TO BREAK OUT TARGETS OR QUOTAS BY PRODUCT LINE, NEW VERSUS RENEWED BUSINESS, OR JUST OVERALL REVENUE?

Your compensation plan sends a strong message on where you want the team to focus.

3. HOW COMPETITIVE IS THE MARKET FOR "A" TALENT? IF COMPETITIVE, DO I NEED TO STRUCTURE COMPENSATION DIFFERENTLY IN YEAR 1 VERSUS ONGOING YEARS TO ATTRACT TO PERFORMERS?

When creating your plan, try to remain flexible to adapt to the needs of the market versus maintaining strict adherence to the plan.

4. HOW SHOULD MY TERRITORIES OR SALES COVERAGE BE ESTABLISHED TO ENSURE THAT QUOTAS AND EARNINGS ARE ACHIEVABLE?

Inequity in sales territories can create incredible challenges with morale on the team. Work with marketing to obtain market data.

5. WHAT ARE THE TOTAL EARNINGS A SALES PROFESSIONAL SHOULD MAKE IF THEY ACHIEVE THE ESTABLISHED GOALS?

It is important to ensure total earnings are competitive in the market and is affordable based on the revenue obtained.

6. HOW DO I WANT TO SPLIT THE TOTAL EARNINGS BETWEEN BASE PAY AND INCENTIVE PAY?

Low-base pay and high commissions generally creates higher turnover, but for the reps that make it, more earning potential. High base pay and lower commissions tends to attract reps that get too comfortable with the salary.

Creating the right balance for your culture is critical. If there are a lot of duties that aren't specifically sales related, then the percentage for base should be higher.

7. WHAT TIMING FOR PAYOUTS IS MANAGEABLE FOR THE BUSINESS?

Reporting availability, seasonal cash flow, and other factors can dictate whether you are paying commissions weekly, monthly quarterly, or less frequently.



02 SALES ROLES AND COMPENSATION PLANS

TIPS FOR COMPENSATING COMMON SALES TITLES



If you're just starting to build your sales team, you might need one or two sales reps, or if you're managing a larger sales team, you will need an experienced sales manager or executive to manage your team for you.

As you start to design your sales compensation plan, keep in mind that you will need to compensate each level of your sales organization's hierarchy based on their specific role on the sales team, job duties, and responsibilities.

For example, business development reps will need to have their performance measured, and be compensated against different indicators than inside sales reps, and sales management will need to be compensated on a completely dif-

ferent set of metrics.

Here we will discuss sales compensation design for sales roles at various levels in your company's hierarchy.

INSIDE AND OUTSIDE SALES REPS

While there are some obvious differences between inside and outside sales reps roles, both positions require closing new business and their compensation should reflect that. As such, both roles would likely focus on revenue as a driver for compensation.

However, in many sales organizations, inside sales professionals often do more lead qualification and appointment setting before passing off the opportunity to an outside or more senior sales representative.

As such, inside sales reps tend to have a higher percentage of their total compensation in base salary (i.e. 70-80%) than senior or outside representatives (i.e. 50%).

LEAD GENERATION REPS

Adding a Lead Generation Rep to your sales team is a great way to increase qualified leads, drive efficiencies at a lower cost for the organization, and free up time for sales reps to focus on selling rather than generating new opportunities.

However, this role does not typically close deals so often their pay is mostly base salary (80-90%) with bonuses tied to the number of sales qualified leads they pass to other sales representatives.

ACCOUNT MANAGEMENT

Many companies associate account management roles with the classic 'Farmer' persona. Farmers typically focus on developing long-term customer relationships renewing and expanding business with key accounts.

A well-built incentive plan for an account manager position will recognize the daily outreach and upselling activities that promote customer retention and profit.

Since a good portion of a sales quota will come from existing client business volume, generally a higher percentage of income for account managers comes from base pay.

However, the growth in income for the account manager is heavily tied to upselling new business into those accounts, or growing retention above historical levels.



SALES MANAGEMENT AND EXECUTIVES

Most companies pay sales leaders on total revenue across all sales representatives reporting to them.

How the pay is split across base pay, commissions and bonuses really depends on the role played in your business.

Hands on sales leaders that are heavily involved in deal closings should have a higher percentage of variable compensation, while leaders that spend their time coaching and developing a large team will have a higher base.

Often special incentives are added to help drive successful launch of a new product or hitting hiring targets during startup or high-growth stages of the business. Generally, sales leaders have about 25-40% of their compensation as variable.

TYPES OF SALES COMPENSATION PLANS

Try to think of sales compensation as a delicate balancing act. Pay too little and you won't be able to attract top talent to your position, but pay too much and your sales reps won't be properly incentivized for their efforts.

There are ways you can reach a middle ground with a sales compensation package that both incentivises the right behavior and attracts top talent.



Each sales compensation plan has pros and cons and not every plan will be right for your organization. You will have to determine what plan works best for your company and consider adding modifications and incentives to tailor your plan to your needs and company goals.

Below we outline three sales compensation models:

1. Straight Salary
2. Salary Plus Commission
3. Commission Only

We've also included a few other items for your consideration that will help you customize and tailor your sales compensation plan.

STRAIGHT SALARY

Great for Account Managers or Customer Service

Straight salary sales compensation plans are rare, but they do have a place in some organizations. With this type of structure, it's just what you would expect: you offer your reps a yearly salary, without any commission or any other type of compensation on top.



This type of compensation plan is most often used in industries that prohibit direct sales, when sales people work as a team and contributions are all equal, when you have a small team, or when sales reps spend a significant portion of time in non-selling activities.

PROS

- Encourages salespeople to work as a team and all members are equal contributors
- Salespeople who need a guaranteed paycheck may be attracted to the consistent pay
- Eliminates the risk of surprise incentives or bonus expenses

CONS

- Doesn't highly motivate salespeople because there are no incentives for them to work harder
- May attract less experienced sales reps who want a more stable pay structure
- Increased turnover as sales reps leave for positions that offer the chance to make more income
- Eliminates a competitive sales environment which can lead to stagnant growth and sales



CAUTION: Do not hire hunters in this model

SALARY PLUS COMMISSION

Great for Hunters

Salary plus commission plans are widely used and recommended in most cases.

They're structured so that salespeople receive a competitive base salary, along with a commission that could potentially double their income - or more!



Many companies use salary plus commission sales compensation plans adjusting the split between base pay and commission according to the role.

For example, a typical split between base and commission in a sales team might look like this - Outside Sales Rep 50% base / 50% commission, Inside Sales Rep 70% / 30% and Sales Leader 80% / 20%.

Most importantly, the commission should be uncapped or unlimited - meaning that if sales continue to grow earnings do as well. Sales is a vital part of a business and if the sales rep can create even more business, they should be rewarded. Don't discourage your sales reps by having a maximum they can earn.

PROS

- Salary plus commission offers a balance of pay stability with the opportunity to earn a larger income.
- Offers salespeople more motivation to increase productivity and to achieve goals.

CONS

- Not always clear the best way to split total earnings between base and salary. If base is too low, you often can't attract the best candidates, but if the base is too high, sales professionals can become comfortable living off of the base salary.
- If quotas and commission targets aren't achievable, it can be a demotivating compensation plan.



CAUTION: Do not set the base too low.

COMMISSION ONLY

Great for Entrepreneurs

Commission only compensation plans offer payment only when sales are made. There is no guarantee to regular income if revenue isn't being generated. These types of plans may seem like a better value for your money paid, but there are many cons to using this type of plan.



PROS

- Commission only sales compensation plans are easy to administer.
- Sales people tend to be able to make their own schedules which can improve morale and satisfaction.

CONS

- Harder to attract and retain salespeople
- These plans can create aggression and high competition within your sales team.
- Low income security may cause high turnover as sales reps move to positions with a base salary
- Sales people who need a longer time to ramp up will struggle with this plan
- It can be difficult to coach commission only sales reps or tell them where to



CAUTION: Discern culture fit - reps on these plans are effectively business owners

AN ART, NOT A SCIENCE....SOME THINGS TO CONSIDER

Choosing the split between base salary and commission is certainly not an exact science. Industry, company size, culture and many other factors can play a role in setting up a compensation plan. Naviga often sees a hybrid approach where companies will have a standard base plus commission plan, but will add in flexibility to the plan when onboarding employees or during start-up phases of the company.

A few other items to consider when building your plan are outlined below.

SHOULD WE PAY ON PROFIT OR REVENUE?

The majority of companies use top line revenue as the basis for their compensation plans. Revenue is easy to track and are understandable to the sales professional. Simplicity is key when building compensation plans. Compensation programs based on profit margin create the right incentive for sales professionals to avoid discounting to win deals. However, depending on what is included in the profit calculation, profit based compensation plans often add a level of complexity that can disincentivize sales people. Companies will generally address concerns about discounting by setting pricing guidelines sales teams must work within.



WHAT ABOUT BONUSES BASED ON OBJECTIVES?

Objective-based bonuses are not generally recommended for sales compensation plans except during a ramp up period for new sales professionals. In most cases there is a delay for new sales representatives earning commissions as they need to train and build their sales pipeline before revenue starts to flow. Companies can effectively use objectives-based bonuses to help boost income during the early quarters while encouraging the right behaviors to ensure future success.

SHOULD WE INCLUDE SALES PROFESSIONALS IN COMPANY TEAM AWARDS?

Most organizations exclude commission-earning sales professionals from team awards as their compensation is already tied to one of the most critical success factor for a business - revenues! Further, sales professionals often have the opportunity to be the highest paid people in an organization due to the uncapped nature of their earnings potential. Naviga often sees these types of team-based incentives in start-up environments where team-work and collaboration are critical, or in companies based in other countries as they often pay higher base salaries with less commission based compensation.

NAVIGA RECOMMENDATION

At Naviga Recruiting & Executive Search, we recommend a hybrid approach of focusing on salary plus commission, but tying in activity-based bonuses in the first year of employment to help bridge the income gap from prior employers while building the sales pipeline. This approach gives you the best overall balance between providing your sales reps a liveable wage, incentive to grow the business, and the ability to attract top talent from other companies that will want to see first year income parity when making a change.

SALES EARNINGS SNAPSHOT

SALES OCCUPATIONS	NATIONAL MEDIAN SALARY	REC. BASE SALARY RANGE	ON TARGET COMMISSION OR BONUS	TOTAL PAY
Inside Sales Representative (2-5 years)	44k	37-52k	15k	60k
Inside Sales Representative (2-5 years) Industry Specific	55k	52-65k	25k	80k
Senior Inside Sales Representative (5-10 yrs)	52k	41-62k	15k	70k
Senior Inside Sales Rep. (5-10 yrs) Industry Specific	68k	65-75k	25k	90k
Outside Sales Representative (3-5 years)	67k	55-80k	60k	117k
Senior Outside Sales Representative (5-10 years)	75k	67-80k	75k	150k
Senior Sales Representative (15+)	114k	120-180k	140k	280k
Account Executive (3-5 years)	69k	60-80k	15k	85k
Senior Account Executive (5+ years)	90k	75-105k	20k	110k
Business Development Associate	67k	55-80k	60k	117k
Senior Business Development Associate	75k	67-80k	75k	150k
Channel Sales Manager (2-5 years)	74k	60-90k	25k	100k
Senior Channel Sales Manager (5-10 years)	90k	70-105k	60k	140k
Channel Sales Director (10+ yrs , manage others)	142k	120-165k	20k	160k
Sales Manager (5-10 years)	110k	95-130k	25k	135k
Sales Manager (10+ years)	140k	120-160k	35k	175k
Director of Sales (10+ years)	156k	135k-180k	45k	205k
Top Sales Officer (VP of Sales, CSO) (15+ years)	240k	200-290k	100k	340k

ADJUSTING SALARIES FOR U.S. CITIES



The salary ranges on the previous page reflect the national median salaries, recommended base salary range, on target commission or bonus, and total pay for each position.

To determine the estimated salary range for a position in your area, use the local variance numbers for each location. Below we have listed the local variance numbers for various cities across the U.S.

ATLANTA.....	107%	MIAMI.....	107%
AUSTIN.....	107%	NEW YORK.....	140%
BALTIMORE.....	103%	PHILADELPHIA.....	115%
BOSTON.....	133%	PHOENIX.....	112%
CHARLOTTE.....	102%	SAN DIEGO.....	123%
CHICAGO.....	123%	SAN FRANCISCO.....	138%
DALLAS.....	108%	SEATTLE.....	119%
DENVER.....	105%	TAMPA.....	98%
HOUSTON.....	107%	WASHINGTON-DC.....	140%
LOS ANGELES.....	128%		

03 PUT YOUR PLAN INTO ACTION

COMMON MISTAKES WHEN CREATING A COMPENSATION PLAN

Now that you have assembled your sales compensation team, learned about common sales plans, and reviewed average compensation for different sales roles, you can now start writing your plan.

But first, find out common mistakes companies make when creating their sales compensation plans and how you can avoid making these mistakes too.



NOT ALIGNING METRICS WITH SALES GOALS

Compensation plans fail when your company goals and sales goals are on two different pages.

Your sales compensation plan should be tailored to incentivize behaviors that will really have an impact on your company's goals and business model.

CAPPING COMMISSION

Why would you want to encourage your sales rep to stop performing once they've reached their payout limit?

That's exactly what a cap on commission will do.

Not only is your company losing out on potential sales, but a cap could also kill team morale and company culture.

PAYOUT FREQUENCY

How often should you pay commissions to your sales team?

The answer to that question depends on the role.

An entry-level sales rep right out of college will need their commission checks more frequently than a seasoned VP of Sales.

Make sure you come up with a payout frequency that fits your team or you risk turnover.

Naviga typically suggests bi-weekly or monthly pay outs for sales professionals and quarterly for executives.



Payouts that are less frequent, like semi-annually or annually often don't have the same impact on performance due to requiring the sales professionals to learn to live on the base salary - with other payouts looming too far in the future.

TOO COMPLICATED

The more focused and simple your sales plan, the easier it will be for your sales managers and sales reps to understand where they need to focus their time and what goals they need to achieve.

Don't spend too much time trying to address every possible scenario, but focus on keeping it succinct.

USING METRICS THAT CAN'T BE TRACKED

One of the most essential parts of creating a sales compensation plan is tying incentives to metrics that can be tracked.

Anything that is subjective, estimated, or changes over time is not going to provide the motivation you desire.

SALES COMPENSATION TEMPLATE

Employee _____

Location _____

Territory _____

Period _____

Targeted annual variable income _____

Revenue Objectives

85% compensation (\$80,750 USD) will be based on attainment of revenue sales objectives.

Quarter	Objectives	Target Payout
Q1	1. Close 3 paying customers who formally agree to be a public reference account (75%) 2. Achieve 3x pipeline coverage (min 20% stage) for Q2 target as of end of Q1 (25%)	\$3563
Q2	1. Reduce time2close for top 5 opportunities by 10% 2. Additional objectives for this quarter will be mutually established within 15 days of the beginning of the quarter	\$3563
Q3	Objectives for this quarter will be mutually established within 15 days of the beginning of the quarter	\$3563
Q4	Objectives for this quarter will be mutually established within 15 days of the beginning of the quarter	\$3563

Success Objectives:

15% TVI (\$14,250) based on personal success objectives for the year, established quarterly. Objectives based bonuses will be paid upon completion and acceptance by [Sales Coach/Manager] the month following the quarter for which the objectives were set.

Commission will be earned at a rate established in the table below based on the total net USD invoiced bookings during the period. Commission will be paid within 30 days following the end of the quarter. Sales reversals from previous quarters will be credited in this quarter at the same commission rate as it was paid.

Quarterly USD Target	Achievement/Payout	
\$20,188 (USD)	0% – 100%	% Target Achieved
	101% – 120%	1.5x
	120% +	2x uplift

Sales Rep

Date

Sales Manager

Date

REVIEW THE PLAN

There's no doubt about it: Creating an effective sales compensation plan is hard work. There are many people involved in the process and many boxes that need to be checked before you start creating your sales compensation plan. However, the effort you put in typically pays off in both improved sales performance and achievement of your company goals.

Once you have the elements of your new plan in place, ask for guidance from a mentor or fellow business owner who has experience managing a sales staff. They will be able to point out inconsistencies, variabilities or mistakes in your sales compensation plan.

You should also seek feedback from your sales leadership team and sales reps. Ask them what changes they would make or if there is anything that doesn't make sense. You may be surprised at the suggestions that sales professionals will share with you that you might not have picked up on as a business owner.

After you receive all feedback and make the tweaks, you can then finalize the plan as quickly as you can. You don't want sales reps holding off on closing deals because they're waiting for the plan to take effect.

Once the compensation plan is official, you'll be sending out your sales reps on a clear path for success and have a direct impact on the bottom line for your business.

Want help you figuring out how much you should pay your sales reps and what type of compensation plan would work best for your business? Schedule a complementary Sales Hiring Assessment today and we will review what's currently working, and not working, in your sales compensation plan.



SCHEDULE YOUR

SALES HIRING REVIEW TODAY

We'll evaluate your current hiring strategy and offer tips to help you recruit the best sales rep for your company.

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