Spotlight on Sales Compensation Survey Report 2023

Benchmarks and insights to help leaders plan and align quotas, performance, and communication

Executive Summary

Sales compensation planning in a changing economic environment is uniquely challenging. On the one hand, there's the need for tight budget control. But it's also true that well-compensated and therefore motivated account executives (AEs) are one of a company's best hopes for growth.

After all, it's AEs that build pipelines, sign deals, and retain and grow existing contracts. Designing and executing compensation plans is, consequently, a careful balancing act that requires a finger on the pulse of industry trends and the economy, and a finely-grained and responsive planning process.

We wanted to get an idea of how sales compensation is playing out in businesses across the globe, so from March to May 2023, we partnered with Benchmarkit to conduct primary research. The aim: to benchmark B2B sales compensation across topics such as variable compensation and on-target earnings (OTE), quota assignment, and quota achievement.

The survey also focused on incentive compensation plan design and how compensation is calculated and communicated to AEs and sales development representatives (SDRs).

Our findings provide a benchmark for sales compensation management. This includes the technology used to design, calculate, and share compensation plans; how companies determine base salary vs. variable compensation for Sales teams, as well as the implications of quota achievement rates and staff retention.

Key Findings

- Quota setting remains challenging—which impacts quota attainment.
- Missed targets impact new hire ramp success and AE retention.
- 30% of all respondents said that less than half of their AEs achieved quota in 2022.
- Companies reported that pipeline development is one of the biggest revenue growth challenges, though only a minority include pipeline generation as part of the sales incentive compensation plan.
- In the quota mix, we found a near 50/50 balance of new business vs. retaining existing customers.
- Planning and executing compensation strategies still involve inefficient manual processes.
- There remains a need to align quotas with industry benchmarks.
- In a changing economy, increased automation and integration are key to developing sensible compensation plans.

Sales compensation remains a large expense and a key growth driver for companies.

Understanding the driving factors—attracting talent, increasing motivation, and optimizing revenue—will help companies get sales compensation right. But companies also need to fluidly adjust plans when needed to continuously maximize top and bottom-line performance.

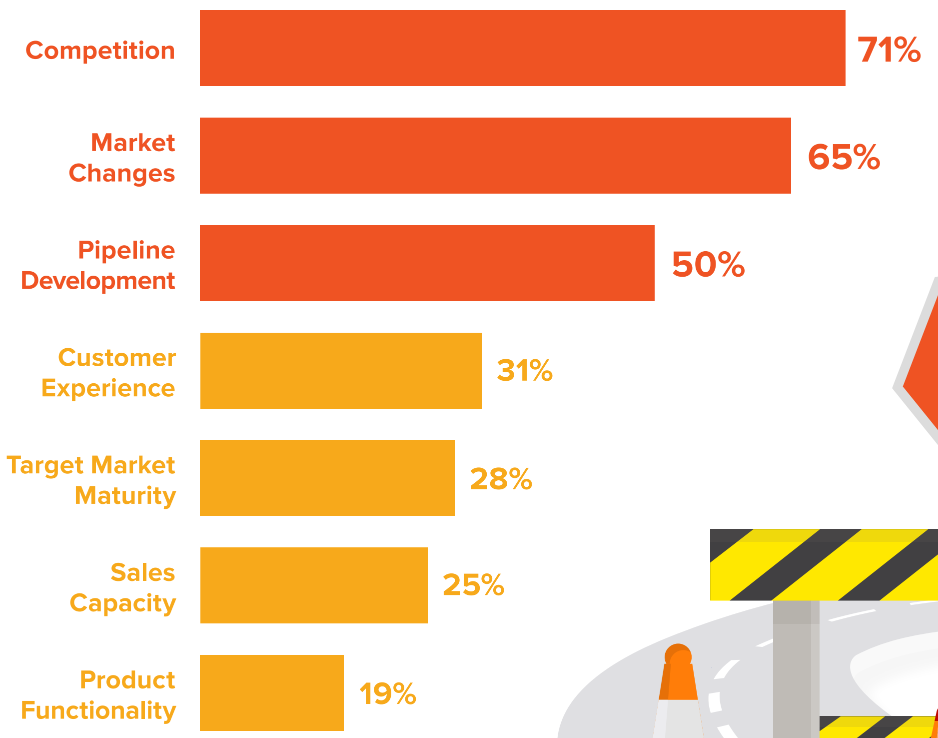
Current Challenges in Compensation

Companies are currently making and managing compensation plans in the middle of a period of relatively high inflation. That brings corresponding pressure for higher wages.

After all, if competitors are offering more robust pay, the most successful AEs and SDRs are likely to jump ship.

It comes as no surprise, then, that our respondents said that the top three obstacles to revenue growth are stiff competition, followed by market changes, and facilitating pipeline development.

Top Revenue Challenges



Eight Challenges That Compensation Leaders Face

1 IMPROVING COLLABORATION IN PLAN DESIGN

Sales or finance leaders going at it alone in compensation planning risk goal misalignment—this is why internal collaboration is key.

2 BALANCING COMPANY AND SALES REP OBJECTIVES

Companies want to optimize money paid vs. revenue generated, while reps want to earn as much as possible.

3 UNDERSTANDING THE GAP BETWEEN QUOTAS AND ACHIEVEMENT

Compensation leaders need to discern why AEs may underperform when ramping or miss their quotas when established in their roles.

4 BENCHMARKING AND SEGMENTATION

Align quotas with industry benchmarks and customer segments to maximize the effectiveness of compensation.

5 FORECASTING

Predicting the financial impact of compensation planning remains a challenge—even more so in a changing economic environment.

6 COMPENSATION PLAN MANAGEMENT

Multiple incentive compensation plans across various departments mean companies struggle to manage plans effectively and efficiently.

7 RELYING ON GUT INSTINCT OR OUTDATED DATA

Winging it is tempting—but making decisions based on concrete data is critical and requires up-to-date benchmarking to compare incentives to industry peers.

8 ELIMINATING THE USE OF MANUAL TOOLS

Ongoing use of error-prone spreadsheets and manual systems leads to inefficient plans that lack flexibility and accuracy.

In spite of these challenges, we know **the companies that get compensation plans right will build consistent, repeatable sales performance that supports their sales pipeline and retains existing customers**—irrespective of the climate.

Are Current Compensation Plans Working?

Quota attainment and AE performance

Let's start by taking a look at quota attainment and the corresponding performance from AEs. After all, quotas benchmark performance, aid in planning, and act as a motivator for AEs.

In aggregate, quotas and achievement will never align perfectly, as AEs either overachieve or underachieve. But by design, this gap should be relatively narrow. Too much of a gap indicates that something is amiss in how compensation planning is executed.

Our survey revealed **a significant gap between quotas and actual achievement.** Thirty percent of respondents said that 50% or more of AEs did not achieve quota in 2022. Looking ahead, the majority of companies (91%) do not expect their AEs to meet or exceed quota in 2023 (or are unsure about it).

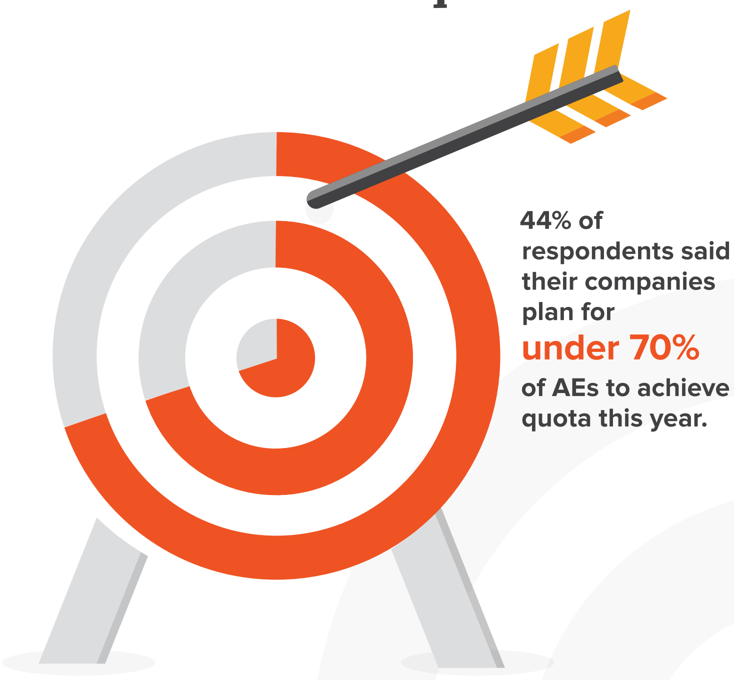
- In 2022, more than 30% of AEs did not achieve quota, according to more than half of the respondents.
- 91% of respondents indicated they do not expect their AEs to hit or exceed quotas in 2023, or are unsure.
- The majority of respondents are planning for 30% of AEs or more to miss quota in 2023.

What are the consequences if a large proportion of AEs miss their quotas? Revenue shortfall is one concern, which could lead to tight cash flow—neither of which supports investor confidence. AEs that consistently fall short of their quotas could also impact morale and staff retention.

What causes the gap between quota and attainment? Quotas could simply be too high—set to meet revenue targets without reflecting the current economic reality. It may also be that quota setting and management are inefficient by design—which is something we'll look at in the next section.

That said, we were encouraged to see that most research participants expect AE attrition to be less than 20% in 2023.

Companies are prepared for missed quota



How effective are ramp periods?

New AEs need a period to settle in, build a pipeline, and grow their sales volume. For this reason, ramp up times are set.

One startling finding from the survey: just 53% of respondents thought that most (90% or more) new AE hires would make it through the ramp period and remain in their roles.

Losing a significant proportion of AEs just after they're hired would impact training and recruitment costs—and, eventually, the revenue pipeline. Improved onboarding and retention strategies could help, but an even more effective strategy could be showing flexibility to adjust and develop quota plans to enable competent AEs to pass the ramp period.

Having access to historical quota ramp up and productivity metrics within the same system used for quota plan development would add quality and efficiency to the overall quota planning process. Nonetheless, companies should also monitor current trends and not rely on historical data alone.

With gaps between quota and achievement for both established and new AEs, there's clearly room for improvement in incentive compensation management (ICM).

Key Insights

78%

of respondents said they have a planned new hire ramp period of six months or less.

26%

of participants said they "do not know," whether new AEs will last through the quota ramp period, suggesting that they may not track who achieves full ramp quota.

Only 53%

of respondents reported that close to 90% of new hires will last through the quota ramp period.

Analyzing Quota Composition

Why have companies found it so difficult to define quotas that AEs consistently meet?

One root cause may be the composition of compensation plans. Are compensation plans reflecting sensible targets? Are incentives targeting the right objectives? In this section, we examine how quotas are changing.

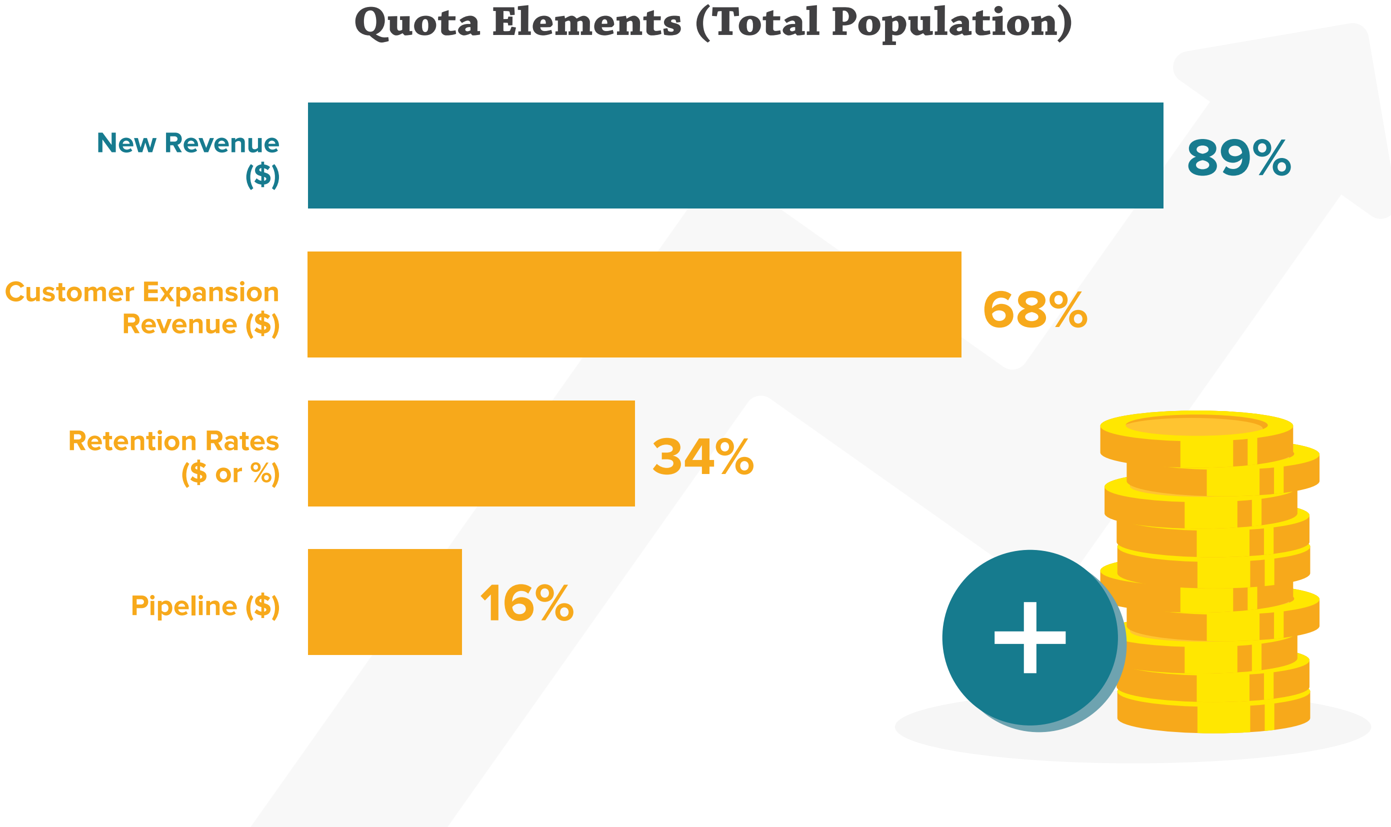
Retention rates are making a splash in sales quotas

Subscription business models are an increasingly common revenue structure in B2B, so it's no surprise to see that retention rates are now the third most popular quota element, according to 34% of our research participants.

That said, new customer revenue (89%) and existing customer expansion revenue (68%) are still the most common quota components.

Interestingly, even though companies reported that pipeline development is one of the biggest revenue growth challenges (50%), just 16% of companies include pipeline generation as part of the sales incentive compensation plan.

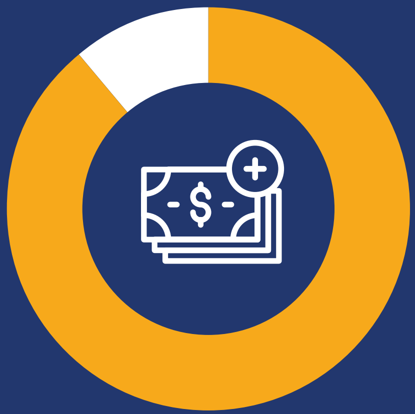
Quota Elements (Total Population)



Today's quota mix is balanced between new and existing growth.

Another interesting finding is that AE quota now is, broadly speaking, equally balanced between new and existing customer revenue—both at 50% of the total AE quota at the median.

That said, we found that when company size increases (and as the annual contract value increases), the contribution of customer expansion revenue to the AE's quota also grows. This is perhaps because large companies that sign big contracts have more room for growing contract value.



89%

of companies have a quota element allocated to new revenue.

68%

of companies have a quota element specific to expanding customer revenue.

How do companies compare by size?

It's worth comparing how companies of different sizes set quotas for AEs. In benchmarking quotas, it's important to keep in mind that enterprise companies have higher-value contracts, while small businesses sign smaller deals—factors that impact quota size.

Quotas need to be sensible, neither undershooting nor overshooting the benchmark. For example, based on survey responses, organizations that set enterprise quotas at less than $1M might be wise to benchmark against their peers and consider raising quotas.

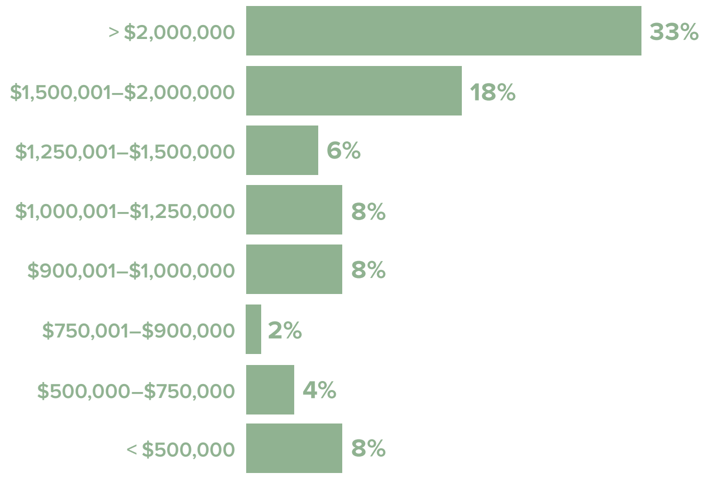
We also found that most companies have two or more target customer segments with dedicated AEs and quotas for each.

These findings highlight two needs:

- to align quota setting with industry benchmarks, as well as customer segment growth and profitability
- for differentiated quotas and compensation plans based on target markets

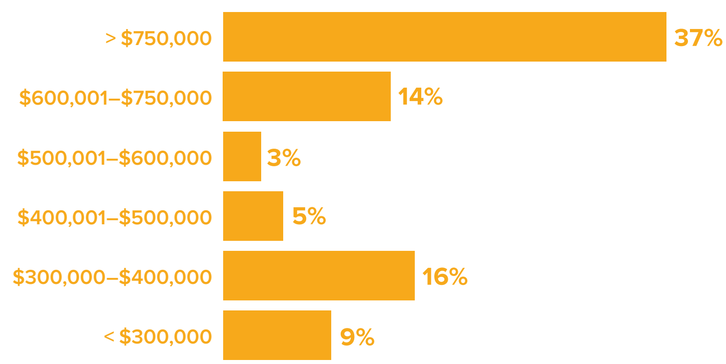
Enterprise

51% of respondents indicated their AEs have a quota >$1.5M, and 33% indicated that their AE's quota was >$2M.



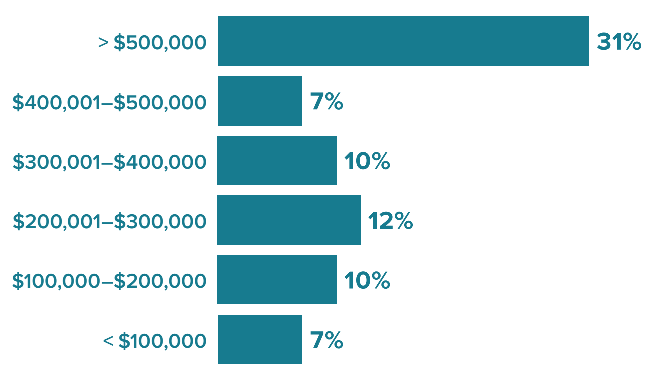
Mid-Market

51% of respondents indicated their AEs have a quota of >$600,000, and 37% indicated that their AE's quota was >$750,000.



SMB

31% of respondents indicated their AEs have a quota of >$500,000.



Examining Seller Earnings

How much do AEs and SDRs earn?

Almost one-half of companies (49%) reported that AEs have an OTE greater than $150,000, while 50% of companies with a sales development function have a target OTE for SDRs between $50,000 to $100,000—and 35% of companies report having an OTE for sales development over $100,000

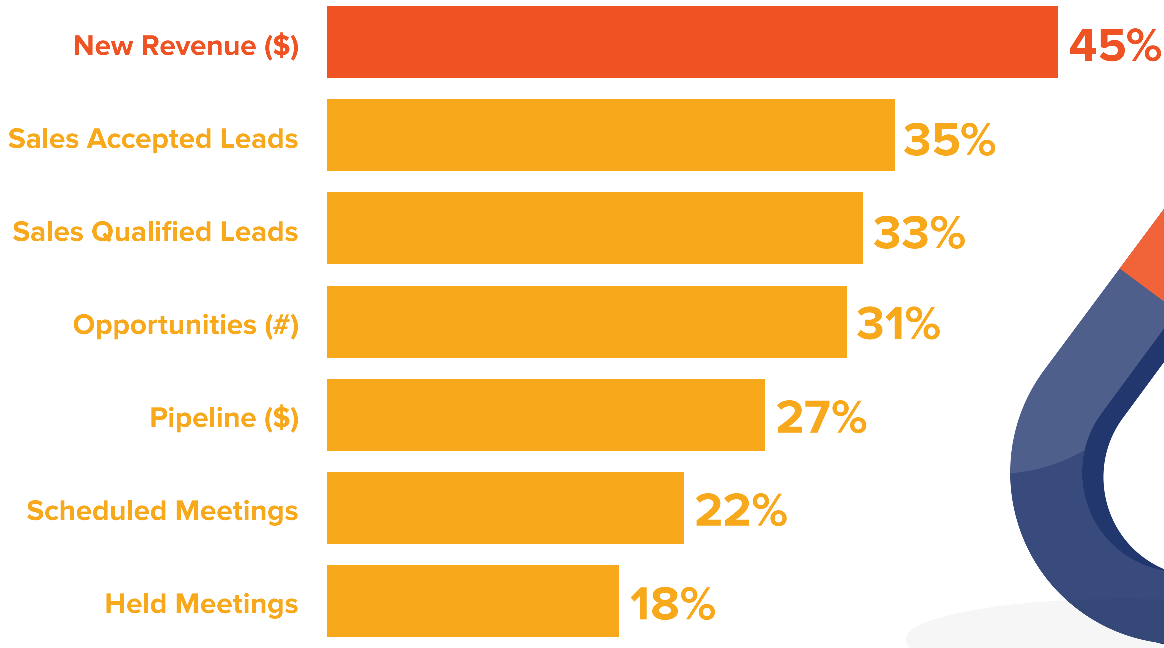
This suggests that as complexity grows within deals and contracts, the knowledge and skills needed require a more in-depth understanding of the buyer's pain points and challenges as well as the solutions, with commensurate compensation.

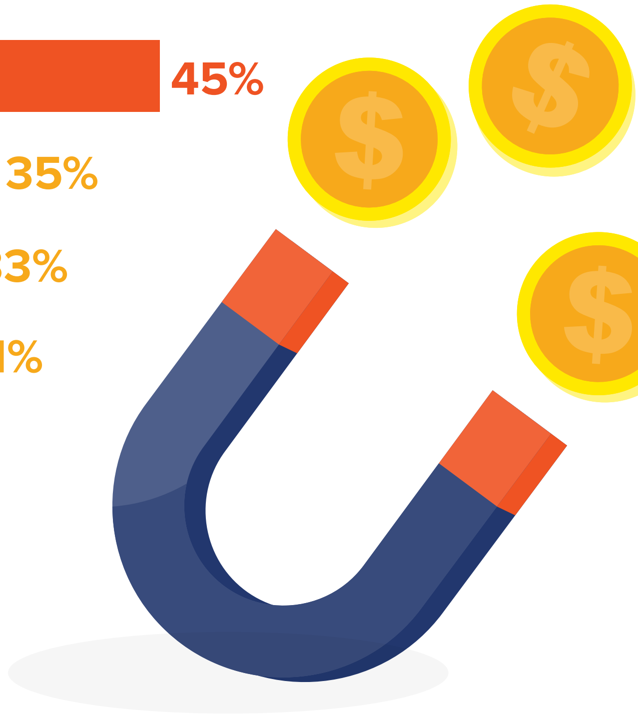
It's also worth noting that, at median, AEs have an OTE split of 50/50 between base and variable, while SDRs have a higher percentage of compensation dedicated to base pay (65%) versus variable (35%).

Where do Sales Development Representatives fit in?

- 81% of research participants reported having a Sales Development organization, but this varied by company size.
- The wide distribution of quota elements for SDRs reflects the evolving nature of the role.
- At a $25K and greater ACV (annual contract value), sales development becomes more commonplace.

Quota Elements (Sales Development Representatives)





Plan Design and Calculation: Platform or Spreadsheets?

If quotas are set to sensible levels using a variety of variables, and if compensation is relatively high, what else could contribute to missed quotas?

Are there hidden challenges in the processes of designing and calculating compensation plans?

Drawing on the correct data and effectively collaborating across teams is a key part of ensuring that compensation plans perform as intended. That's why we asked companies how they execute compensation planning—including whether company size has an influence, and which roles and departments are involved in the process.

How many compensation plans do companies have?

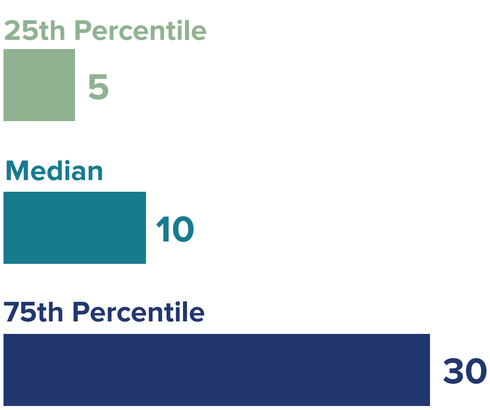
We looked at the complexity of compensation plans and first asked how many a typical company has.

Is it a single plan for all AEs, or a variety of plans to reflect the variety of roles and target markets?

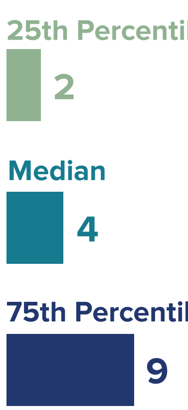
Our results show that the median range is **10 different incentive compensation plans** covering varying groups of employees on variable pay. Respondents also indicated that, on average, they have **four dedicated staff resources managing compensation plans.**

It's clear that there is a complexity and diversity of compensation structures within organizations, as the number of resources allocated varied depending on company size and average contract value. This suggests that larger and more complex organizations require more dedicated resources to manage compensation plans effectively.

Number of Incentive Compensation Plans

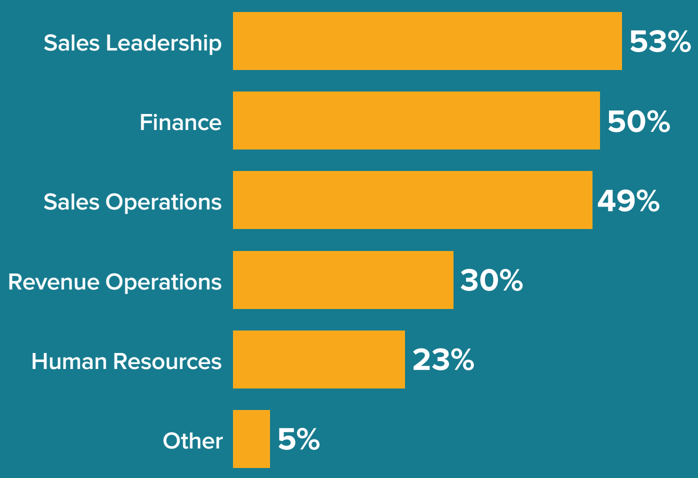


Resources Managing Incentive Compensation



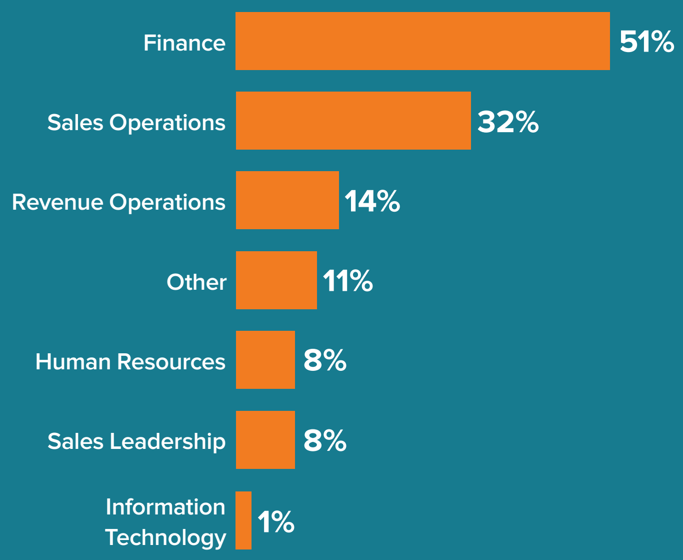
Which departments are involved in plan design?

It's a collaborative effort (with leaders in Finance and Sales taking the lead), indicating that coordination is critical to get plan design right.



Who is ultimately responsible for calculating commissions?

The Finance department is in pole position, followed by Sales Ops and Revenue Ops.



Do companies forecast commissions?

A majority (73%) of respondents said yes. But the number of quota elements and source systems that input data has implications for integration capabilities. Systems that can draw on multiple sources to integrate data will increase the accuracy of forecasts and decrease the resources required to calculate commissions and future commission obligations.

Integrating compensation design into Operations

Planning for and calculating compensation plans is a complex exercise involving multiple departments and moving parts. Coordination is key to making sure that compensation is executed efficiently and accurately.

Software tools should be a first step—and our survey respondents clearly know this. Most respondents (83%) said they used an ICM platform for calculating compensation plans.

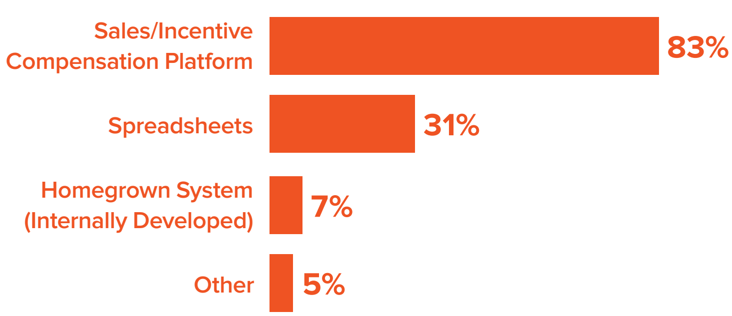
There is still room for improvement, however, as many of our respondents (31%) said they rely on spreadsheets for some aspects of calculating compensation. This can lead to manual data entry resulting in delays and errors in variable compensation payments.

Worryingly, **only 44% of respondents reported using an incentive compensation platform for plan design**—arguably the most critical part of getting compensation right. **A 70% majority used spreadsheets during the plan design process.**

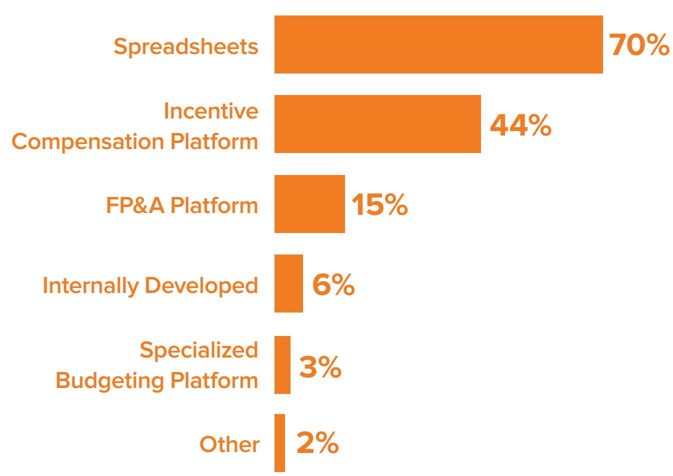
Why is there an enduring reliance on spreadsheets? Is it because ICM platforms do not have the right features in place? Or because other departments that need to collaborate on compensation plan design do not have access to or have not been trained on the ICM platform?

Whatever the reason, our findings highlight the need for better integration and automation to enhance the accuracy and efficiency of ICM. By adopting integrated platforms and leveraging technology, organizations can streamline processes, reduce errors, and enhance Sales team confidence.

Incentive Compensation Calculation: Technology Used



Incentive Compensation Plan Design: Technology Used



Fine-tune your quota analysis

Companies selling to multiple target customer segments should analyze which is most profitable and/or is growing the fastest to determine if more quota and associated revenue could be generated by focusing AEs on that segment.

How do organizations communicate plan changes?

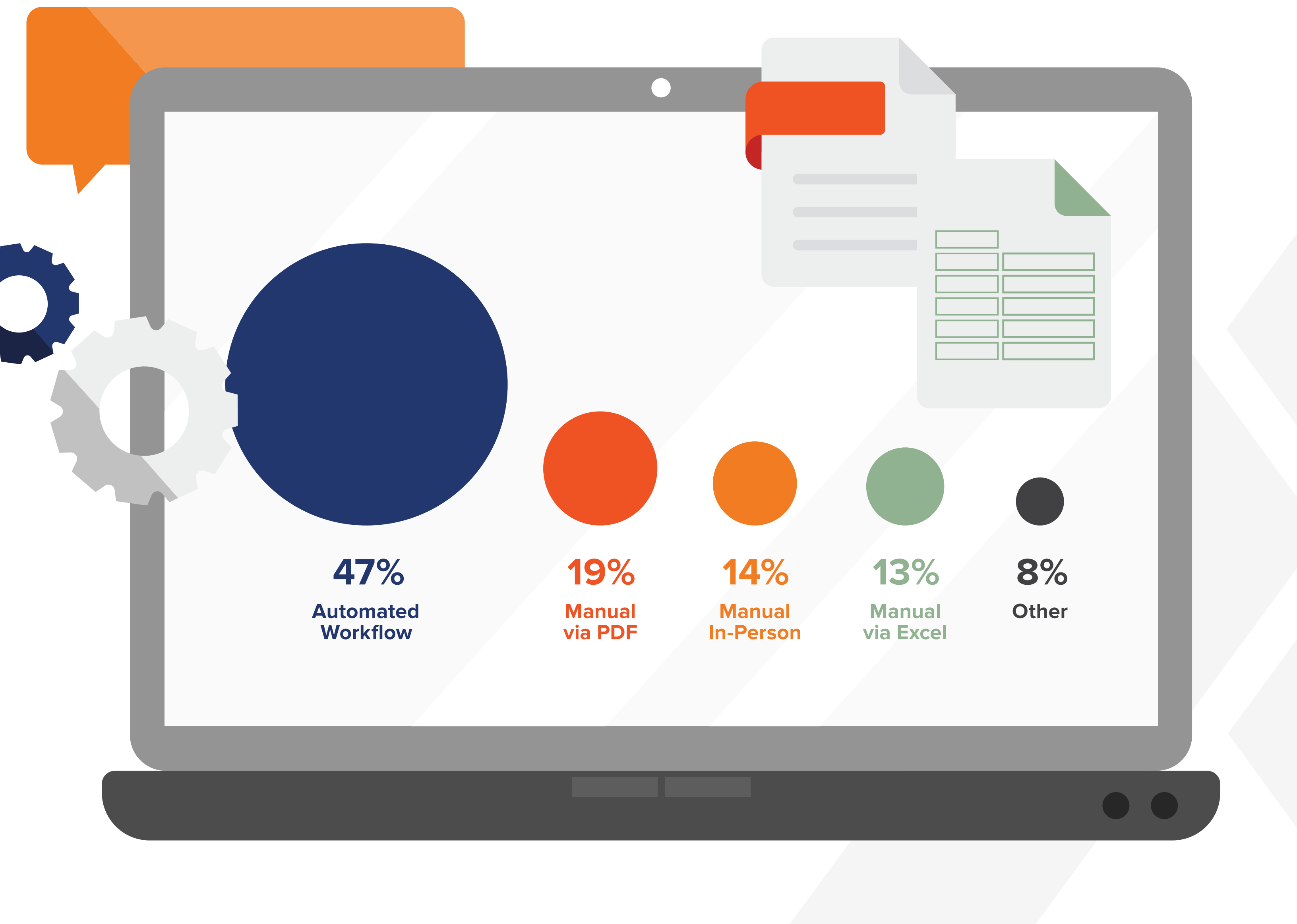
Given that most participants reported using an incentive compensation platform, it was surprising that **only 47% of participants reported using automation** to keep their sales reps informed of compensation plan changes.

Again—we don't know whether there are practical impediments, but the best ICM platforms offer features that automatically notify employees of plan changes.

In contrast, using a manual process to communicate incentive compensation plan changes to sales reps can cause delays and errors that significantly impact confidence and increase time spent auditing commission calculations.

Overall, the results uncover the need for organizations to leverage technology—including an ICM platform. Doing so will improve collaboration across departments and streamline their compensation management processes to enhance efficiency and accuracy.

Sales Incentive Compensation Plan Changes: Communications



Our Recommendations

Our survey highlights the challenge of setting realistic and achievable quotas while ensuring consistent AE performance.

Companies need to address the underlying factors contributing to this performance gap, and put proactive measures in place to improve quota setting, enhance performance, and provide the necessary tools and support to enable AEs to meet and exceed their quotas.

Key Takeaways

1. Manage quotas to support retention and onboarding of new members.
2. Make use of available technology to create greater accuracy in commission forecasting.
3. Include pipeline generation in quotas to ensure AEs always put pipeline front and center (while also making it easier to meet quotas in future periods).
4. Utilize data to facilitate automation and accuracy of compensation calculation.
5. Consider a platform to facilitate collaboration and make incentive compensation plan design more efficient.
6. Automate communication of incentive compensation plan changes to avoid delays and errors.

Methodology

This survey, conducted in partnership with Benchmarkit, included respondents from 230 companies. All respondents were segmented by company attributes including company size, average contract value, and industry.

Job functions

- Finance **40%**
- Sales Operations **23%**
- Sales **12%**
- Human Resources **8%**
- Revenue Operations **8%**
- Other **9%***

Industries

- B2B Technology **44%**
- B2B Services **16%**
- Healthcare and Life Sciences **10%**
- Financial Services **7%**
- Telecom, Media and Entertainment **5%**
- Manufacturing **5%**
- Other **12%***

Job titles

- C-Level **2%**
- Director **19%**
- Vice President **8%**
- Manager **29%**
- Individual Contributor **33%**
- Senior Vice President **3%**
- Other **6%***

Company size

- <$5M **2%**
- $5–20M **4%**
- $20–50M **7%**
- $50–100M **5%**
- $100–250M **15%**
- $250M–1B **31%**
- >$1B **36%***

Average contract value size

- $1–5K **6%**
- $5–10K **5%**
- $10–25K **15%**
- $25–50K **17%**
- $50–100K **19%**
- $100–250K **17%**
- $250K–$1M **13%**
- $1M+ **8%***

Number of salespeople

- <20 **7%**
- 21–50 **6%**
- 51–100 **13%**
- 101–250 **21%**
- 251–500 **19%**
- 501–1,000 **13%**
- 1,001–3,000 **12%**
- 3,000+ **8%***

*Percentages are rounded to the nearest whole number.

Xactly for Smoother Compensation Planning and Management

Xactly Incent is the leading ICM solution that makes it simple to get comp plans right and payouts perfect.

With over 18 years of proprietary pay and performance data, Incent helps companies set accurate quotas and design the most effective compensation plans for their teams.

What's more, companies can make tactical, efficient decisions using precise revenue data—supporting accurate commission forecasting for target and ramp achievement.

The Xactly Intelligent Revenue Platform merges operational and analytical capabilities to promote revenue operations success by unifying planning, performance, and forecasting functions into a single, cohesive platform. Sales leaders also benefit from ramp time and quota modeling features built into the platform—alongside real-time monitoring of ongoing sales performance.

Benefits of Xactly's Incentive Compensation Management Platform

CUT DOWN PLAN ADMINISTRATION TIME BY 60%

Manage intricate calculations and automate your incentive compensation programs to boost quota accuracy and decrease time spent on commission plan administration by 60%.

ACCURATELY PREDICT COMMISSION EARNINGS

Automate the process of forecasting commission earnings by merging the capabilities of Xactly Incent and Xactly Forecasting™ to see potential commission impacts in relation to pipeline data, for more effective pipeline planning.

AUTOMATE COMPENSATION PROCESSES

One of the biggest causes of commission mistakes is human errors that exist with spreadsheets. Xactly Incent helps businesses run automated commission procedures that minimize mistakes and free up administrative time.

ACHIEVE UP TO 10% GREATER QUOTA ATTAINMENT

Leverage Xactly Incent to design competitive compensation plans that truly drive sales. By automatically comparing your plans with those of industry peers, teams can assess competitiveness, increase staff retention, and boost quota attainment up to 10%.

REAL-TIME VISIBILITY

Increase motivation, productivity, and trust among your reps by providing real-time visibility into quota attainment. Promote cross-functional collaboration by providing transparent access to pay and performance data.

MODEL 'WHAT-IF' SCENARIOS

Simulate varying scenarios to more accurately forecast and set quotas. Xactly Incent helps sales leaders illustrate predicted and/or possible incentive earnings for each deal — boosting performance and team morale.

ABOUT XACTLY

Xactly was founded by a sales leader, for salespeople everywhere. Xactly's AI-powered Intelligent Revenue Platform gives Revenue Operations teams the data they need to power sales leaders to plan with agility, motivate with intention, and predict with conviction. We are on a mission to transform the sales industry with AI to power reps and leaders to deliver results regardless of circumstances.

To learn more about Xactly and the latest issues and trends in intelligent revenue, follow us on LinkedIn, and visit **www.xactlycorp.com**.

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