2024 Sales Compensation Report

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

Xactly | benchmarkit

Executive Summary

Sales compensation planning in a volatile 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 achieving balanced growth and profitability.

After all, it's AEs that sign deals and retain and grow existing accounts. 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-tuned, responsive planning process.

We wanted to get an idea of how sales compensation is playing out in businesses across the globe, so 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, which you can use to maximize your Sales team's performance and productivity in 2024. This includes the technology used to design, calculate, and share compensation plans; how companies determine base salary vs. variable compensation for Sales teams; and the implications of quota achievement rates and employee retention.

Key Findings

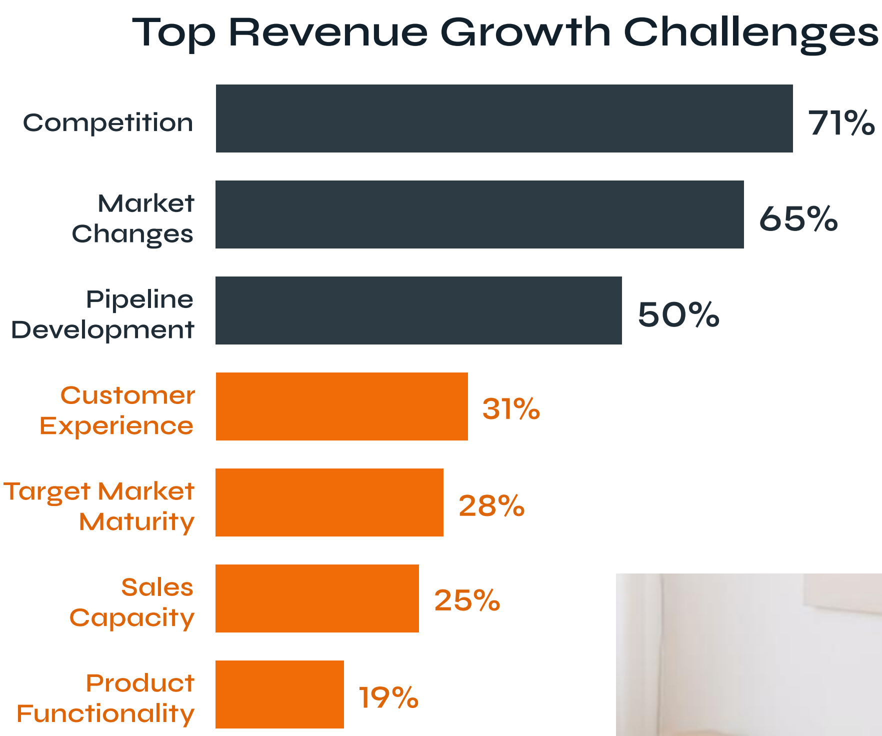
- Quota setting remains challenging—which impacts quota attainment and has companies planning for missed quotas. There remains a need to align quotas with industry benchmarks.
- In the quota mix, we found a near 50/50 balance of new business vs. retaining existing customers.
- Companies reported that 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.
- Planning and executing compensation strategies still involve inefficient manual processes, but in a changing economy, increased automation and integration are key.
- Although most participants reported using an incentive compensation platform, only 47% of participants are using automation to communicate compensation plan changes.

Sales compensation remains a large expense and a key GTM driver for companies to achieve balanced growth and profitability.

Understanding the driving factors—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.

Top Revenue Growth Challenges

We asked survey participants to tell us their top three revenue growth challenges. The number one challenge cited was competition (71%). After competition, market changes (65%) came in second, followed by pipeline development (50%). Sales leaders have seen pipeline development as a top three challenge over the last three years.



Despite these challenges, we know the companies that align their plans with business objectives will build consistent, repeatable sales performance that supports their sales pipeline and retains existing customers—irrespective of market volatility.

Are Current Compensation Plans Working?

Quota attainment

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

Quotas and achievement will never align perfectly, but by design, the gap should be relatively narrow. Too much of a gap indicates that something is amiss in how compensation planning is executed.

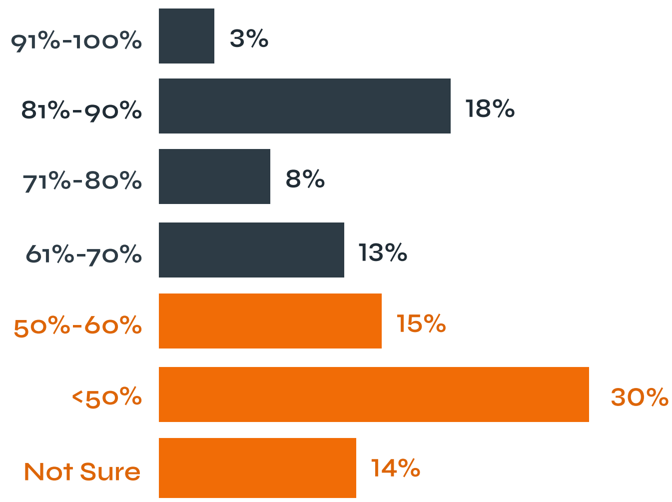
Our survey revealed **a significant gap between quotas and actual achievement.** In fact, **only 9% of respondents reported that their company plans for over 90% of AEs to achieve their quota.**

What are the consequences of having a large proportion of AEs miss their quotas? Revenue shortfall is one concern, which could lead to cash constraints—neither of which supports investor confidence. Additionally, team morale and retention can be negatively impacted.

What causes gaps 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 anticipated AE attrition to be less than 20% in 2023. In the future, our recommendation is to take expected AE attrition into account when building your revenue plan. For every AE that leaves, organizations must consider the ramp time required for their replacement. Understanding both voluntary and involuntary attrition rates is critical when setting the revenue plan.

Quota Achievement



Companies Are Prepared For Missed Quota

44%

of respondents said they are planning for less than 70% of AEs to achieve quota.

The correlation between ramp times and AE attrition

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: nearly half of respondents believe that not all of their new AE hires will make it through the ramp period and remain in their roles. In fact, nearly half (47%) are *expecting* that 10% or more of their new hires will not last through the new hire ramp period.

Key Insights

77%

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

26%

of participants said they "do not know," whether new AEs will last through the ramp period, suggesting that they may not track this information.

63%

of respondents are planning for AE attrition rates between 10 and 40 percent.

Losing AEs just after they're hired impacts training and recruitment costs—and, eventually, the revenue pipeline. Improved onboarding and retention strategies can help, but a more effective strategy can be showing flexibility to adjust and develop quota plans that enable competent AEs to accelerate through 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. Monitoring current trends can also help.

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

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.

Sales Compensation Plan Components

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 quota elements are changing.

Retention rates are a key component of quotas

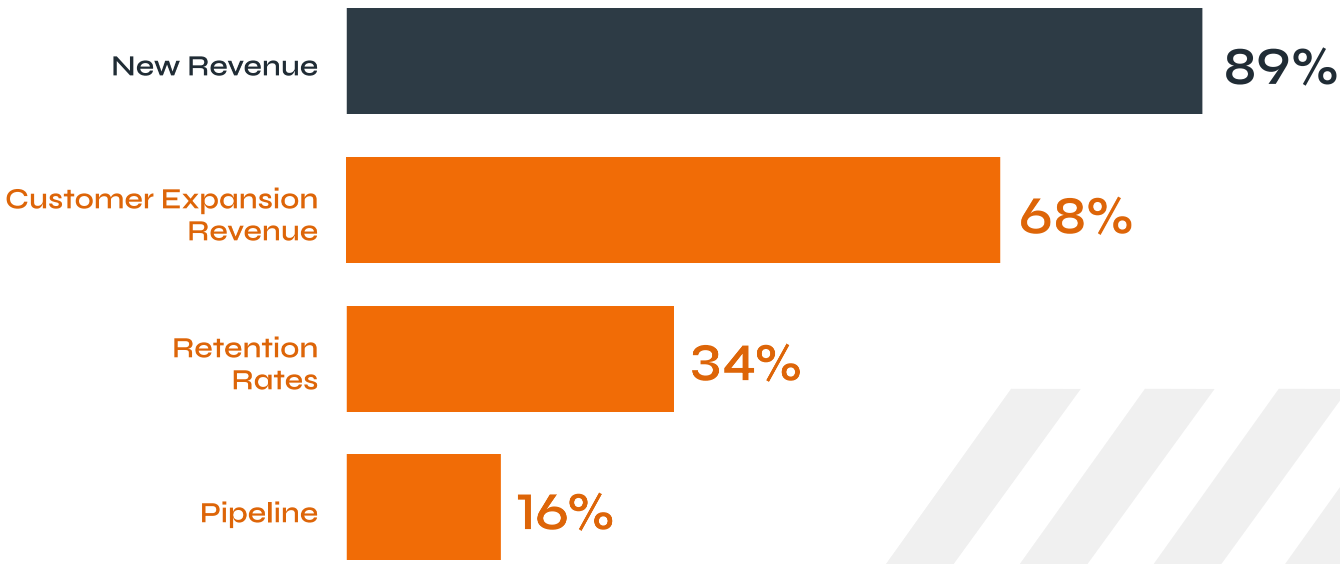
Subscription business models are an increasingly common revenue structure in B2B, so it's no surprise to see that retention rates were listed as the third most popular quota element, according to 34% of our research participants.

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

Pipeline generation is not yet a priority

Interestingly, even though 50% of respondents reported that pipeline generation is one of their company's biggest revenue growth challenges, only 16% included pipeline as part of compensation plans for their AEs.

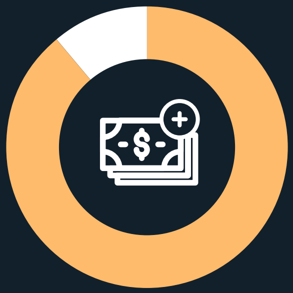
Compensation Plan Components: AE



Today's quota mix is balanced between new and existing revenue

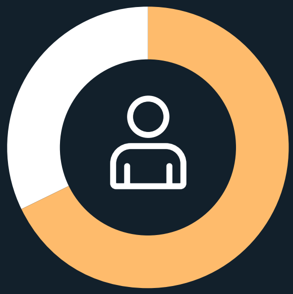
Another interesting finding is that AE quota now is, broadly speaking, equally balanced between new and existing customer revenue—both at 50% of the total AE quota at the median.

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 customer expansion 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 quotas.

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.

SMB

31%

of respondents indicated their AEs have a quota greater than $500,000.

Mid-Market

37%

of respondents indicated their AEs have a quota of more than $750,000.

Enterprise

33%

of respondents indicated that their AE's quota was greater than $2M.

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.

Compensation Plan Design and Calculation

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? Our survey found that there are 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, which roles and departments are involved in the process, and what technology they use to get it done.

Who designs and runs the process?

Our survey indicates that compensation plan design is a collaborative effort. This demonstrates the importance of being able to facilitate collaboration across organizations to increase planning efficiency.

What does size have to do with it?

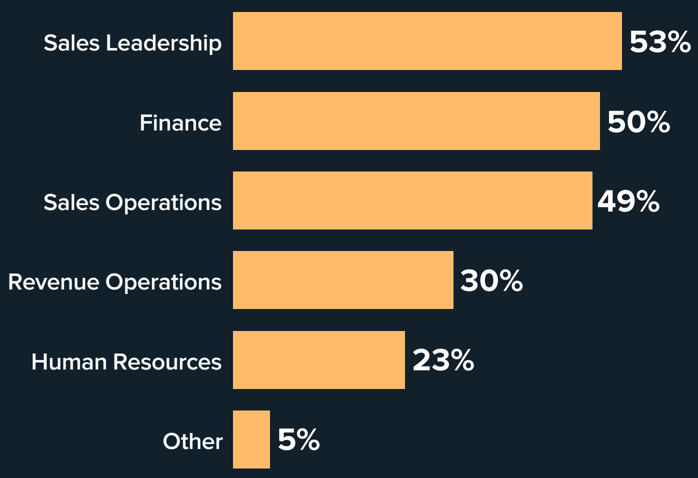
We looked at the complexity of compensation plans and asked how many each company has. Is it a single plan for all AEs, or a variety of plans to reflect the variety of roles and target markets?

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 across organizations, as our survey findings showed that 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.

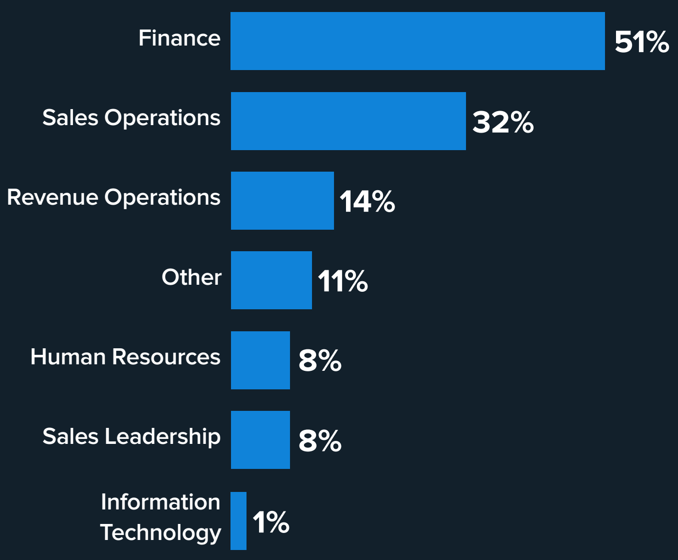
Which departments are involved in plan design?

Although plan design is a shared responsibility, leaders in Sales, Finance, and Sales Operations take ownership.



Who is ultimately responsible for calculating commissions?

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



Platform or spreadsheets?

Our survey found that 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 innovative technology, organizations can streamline processes, reduce errors, and enhance sales team confidence.

How do organizations communicate plan changes?

Given that most participants reported using an ICM platform, it was surprising to find 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 their compensation plan changes.

In contrast, using a manual process to communicate these changes can cause delays and errors that significantly **impact confidence and increase time spent auditing commission calculations and payments.**

Overall, the report uncovered the need for organizations to leverage innovative technology—such as an ICM platform. Doing so will improve collaboration across departments and streamline their compensation management processes to enhance efficiency and accuracy.

Do companies forecast commissions?

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

Examining Seller Earnings

How much do AEs earn?

Almost one-half of companies reported that AEs have an OTE greater than $150,000.

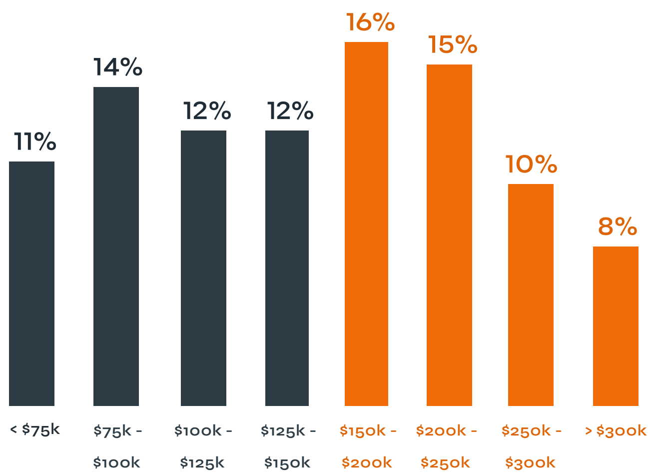
These numbers are significantly higher than on-target earnings for sales development representatives (SDRs) which we highlight in the following section, suggesting that as complexity grows within deals and contracts, the knowledge and skills needed require a more in-depth understanding of the buyer's pain points and challenges as well as the solutions. This additional knowledge is rewarded with commensurate compensation.

It's also worth noting that, at median, AEs have an on-target earnings split of 50/50 between base and variable pay.

How do sales development representatives fit in?

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

On-Target Earnings: Account Executives



How much do SDRs earn?

50% of companies with a Sales Development function have a target OTE for SDRs between $50,000 and $100,000—and 35% of companies report having an OTE for Sales Development over $100,000.

Compared with AEs, SDRs have a higher percentage of compensation dedicated to base pay (65%) versus variable (35%).

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. Create quotas that support retention and onboarding of new sellers.
2. Include pipeline generation in quotas to ensure AEs always put pipeline front and center (which also makes it easier to meet quotas in future periods).
3. Utilize data to facilitate the automation and accuracy of compensation calculation.
4. Consider an ICM platform to facilitate collaboration and make incentive compensation plan design, calculation, and commission forecasting more efficient.
5. Automate the communication of incentive compensation plan changes to avoid delays and errors.

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 strategic, efficient decisions. Combining historical performance data with up-to-date pipeline data provides accurate commissions in support of pipeline acceleration and target achievement.

The Xactly Intelligent Revenue Platform merges operational and analytical capabilities to promote revenue operations success by unifying planning, performance, and forecasting business processes into one single location. Sales leaders also benefit from ramp time acceleration and quota planning features built in—alongside real-time monitoring of ongoing sales performance.

Benefits of Xactly's Incentive Compensation Management Solution

CUT DOWN PLAN ADMINISTRATION TIME BY 60%

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

ACCURATELY PREDICT COMMISSION EARNINGS

Automate the commissions forecasting process by merging data from Incent, visualized alongside current pipeline data within Xactly Forecasting™, to see potential commission payouts if certain deals or full pipeline categories close.

AUTOMATE COMPENSATION PROCESSES

Run automated commission procedures that minimize mistakes and free up administrative time to focus on initiatives that drive the business forward.

ACHIEVE UP TO 10% GREATER QUOTA ATTAINMENT

Design competitive compensation plans that truly drive sales. By comparing your plans with those of industry peers, teams can assess competitiveness, increase staff retention, and boost quota attainment by 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 across teams and functions.

MODEL 'WHAT-IF' SCENARIOS

Simulate various scenarios on the fly and illustrate predicted and/or possible pipeline outcomes, supporting their compensation counterparts to effectively predict quota achievement—boosting performance and team morale.

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 included: Finance (40%), Sales Operations (23%), Sales (12%), Human Resources (8%), Revenue Operations (8%), and Other (9%)*

Job titles included: C-Level (2%), Director (19%), Vice President (8%), Manager (29%), Individual Contributor (33%), Senior Vice President (3%) and Other (6%)*

Industries included: B2B Technology (44%), B2B Services (16%), Healthcare and Life Sciences (10%), Financial Services (7%), Telecom, Media and Entertainment (5%), Manufacturing (5%) and Other (12%)*

Company size included: <$5M (2%), $5M-20M (4%), $20M-50M (7%), $50M-100M (5%), $100M-250M (15%), $250M-1B (31%) and >$1B (36%)*

Average contract value size included: $1K-$5k (6%), $5K-$10K (5%), $10K-$25K (15%), $25K-$50K (17%), $50K-$100K (19%), $100K-$250K (17%), $250K-$1M (13%), $1M+ (8%)*

Number of salespeople included: <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.

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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