Accelerating Sales without Breaking the Bank

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Introduction

Most companies use sales commission accelerators, so it's not uncommon for compensation professionals to ask themselves: how do I know if my sales accelerators are too aggressive, just right, or too conservative? In this article, we address this challenge by exploring the competitive practices and design principles behind the development of cost-effective sales commission accelerators across a variety of business situations and needs.

First, it's important understand the fundamental roles of sales commission accelerators, which are: (1) to motivate high performance; and (2) to pay competitively for different levels of performance. If your current sales accelerator program isn't delivering on one or both of these goals, that's an immediate sign that changes are probably needed.

When designed properly, sales accelerators encourage sellers to hit and exceed their goals, and they help boost payouts for high performers whiling limiting pay for low performers. The results are individual pay outcomes and overall sales compensation expenses that are competitive with the market. Without accelerators in place, goals or quotas can have far less financial impact on sales reps than intended, meaning companies run the risk of underpaying high performers and overpaying low performers.

Basic Accelerator Model

In order for a sales accelerator to become active, a triggering event must occur— usually quota achievement. The table below illustrates a basic accelerator model where sales reps earn a base commission rate of 5% for all deals closed up to quota. This base rate then accelerates two times, to 10%, for every dollar sold above quota.

Table 1: Basic Accelerator Schedule

Performance Level	Accelerator	Commission Rate
At or below Quota	n/a	5.0%
Above Quota	2.0x	10.0%

At Radford, we call the example depicted in Table 1 above a “single-tier” accelerator. This approach is a very simple way to motivate sales reps to seek above-quota performance. You may also hear this model described as having one inflection point (at quota) and two commission rates.

So how do you know what type of sales accelerator rate (e.g., 2.0x vs. 2.5x vs. 3.0x) to select? This is where competitive benchmarking data is critical. To illustrate this point, we pulled a sample data set from the [Radford Global Sales Survey]:

Table 2: Sample Radford Global Sales Survey Output

Sample Current Fiscal Year Target Data

Annual Incentive Target or Actual: CFY Target
New Hire or Ongoing Long Term Incentives: Ongoing
Guideline or Actual Long-Term Incentives: Actual (SO+RS+PS+Cash LTI)

	Avg.	90th	75th	60th	50th	25th	10th	Emps	Cos
CFY Base Salary	148,178	175,126	163,349	156,121	149,434	129,163	117,856	170	66
Total Allowances	6,728	9,060	8,400	7,500	7,200	5,400	4,200	57	22
Fixed Compensation	150,433	180,248	167,595	160,733	150,201	130,010	119,238	170	66
CFY Target Incentive Amount	72,538	106,219	84,812	76,028	**69,952**	53,821	41,254	155	61
CFY Target Incentive % of Base	51.2%	81.8%	61.2%	53.3%	47.1%	33.0%	25.0%	155	61
Base + CFY Target Incentive	221,062	259,876	241,623	228,321	218,427	199,460	180,306	155	61
Fixed Comp + CFY Target Incentive	223,335	260,548	244,154	229,95[illegible]	219,517	202,208	180,306	155	61
Actual OG SO+RS+PS+Cash LTI Value	30,765	44,542	36,031	26,5[illegible]0	24,287	16,399	11,557	76	29
CFY Target Total Direct Compensation	242,500	287,724	257,226	24[illegible]665	237,356	215,533	194,514	137	53

Notes for Compensation Data Table:
a) Total Direct Compensation is not shown if either Guideline or New Hire long-term incentives are chosen.

Sample Last Fiscal Year Actual Data

Annual Incentive Target or Actual: LFY Actual
New Hire or Ongoing Long Term Incentives: Ongoing
Guideline or Actual Long-Term Incentives: Actual (SO+RS+PS+Cash LTI)

	Avg.	90th	75th	60th	50th	25th	10th	Emps	Cos
LFY Base Salary	143,903	173,719	[illegible]9,616	149,675	143,500	126,275	114,702	119	48
Total Allowances	6,728	9,060	8,400	7,500	7,200	5,400	4,200	57	22
Fixed Compensation	150,433	180,248	167,595	160,733	150,201	130,010	119,238	170	66
LFY Actual Incentive Amount	82,310	**140,132**	102,710	81,492	68,013	42,647	31,884	118	48
LFY Actual Incentive % of LFY Base	60.9%	108.3%	83.0%	60.9%	49.0%	27.0%	19.2%	118	48
LFY Base + LFY Actual Incentive	225,522	271,313	239,113	220,055	213,594	190,216	170,594	119	48
LFY Fixed Comp + LFY Actual Incentive	228,079	277,313	240,145	224,290	215,589	192,737	173,250	119	48
Actual OG SO+RS+PS+Cash LTI Value	30,765	44,542	36,031	26,520	24,287	16,399	11,557	76	29
LFY Actual Total Direct Compensation	245,684	325,567	265,817	249,317	238,754	204,415	189,240	116	45

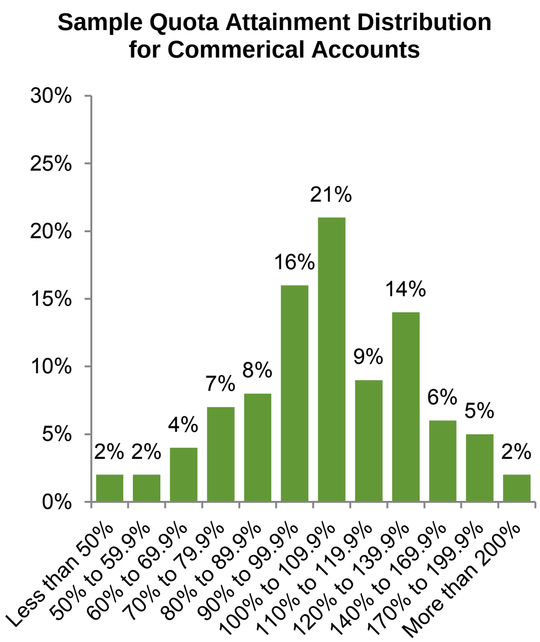
Notes for Compensation Data Table:
a) Total Direct Compensation is not shown if either Guideline or New Hire long-term incentives are chosen.

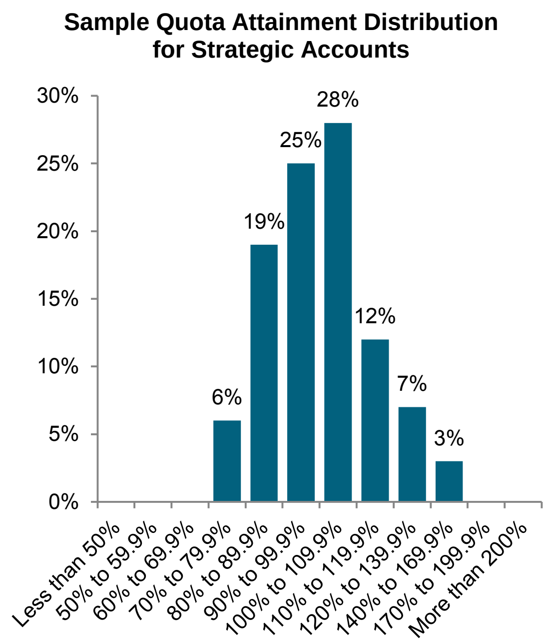
When looking at the wide array of data above, we are most interested in two specific data points:

- Current Fiscal Year (CFY) Target Incentive Amount at 50th percentile, which is $69,952 in this sample case; and
- Last Fiscal Year (LFY) Actual Incentive Amount at the 90th percentile, which is $140,132 in this sample case.

These two figures suggest that, for the particular industry and job in question, high performers earned incentives about two times larger than the median target incentive amount (i.e., $69,952 vs. $140,132). This indicates a sales accelerator rate of 2.0x is appropriate.

We next turn to an arguably much harder question: what is considered high performance? Industry standards typically define high performers as the top 10% of salespeople in a common job title, level and geographic region. To illustrate how one might look at the issue of high performance the following charts display last year's distribution of quota attainment levels for two groups of sales reps, *commercial accounts* and *strategic accounts*, at the same sample company:





For sales reps in the Commercial Accounts group, high performance should likely be defined as reaching quota attainment at or above roughly 150%, as roughly 10% of the group performance at this level or higher. Meanwhile, for the Strategic Accounts group, 90th percentile performance appears to be at 120% of quota. If we applied the same sales accelerator schedule to both groups, top performers in the Commercial Accounts group would probably fare much better relative to top performers in the Strategic Accounts group, which may or may not be the intent of the company.

No matter the situation, it is always important to design sales accelerators with specific payout scenarios in mind for specific jobs, regions and even products. Once you begin to test how accelerators could impact different sales positions, you'll often find that a one-size-fits-all approach does not work. There is also the risk of underpaying or overpaying certain roles within your sales force relative to peer companies if you implement the same type of accelerator schedule across all sales functions.

Benchmarking Against External Data

Beyond pay data, the Radford Global Sales Survey also allows companies to benchmark quota achievement levels against specific global and regional competitors to ensure that they set quotas and accelerators in a manner the best challenges all of their unique sales positions.

The sample data set below comes from a Radford Sales Incentive Plan Practices Report, and shows average quota attainment levels for individual contributor salespeople on both a global basis and when they are located in a company's headquarter country. In the data, we see that between 6.9% (globally) and 8.0% (headquarter country) of sales reps in this particular peer group of more than 100 companies achieved 150% of quota.

Thinking back to our sample Commercial Accounts and Strategic Accounts groups, this data generally aligns with the notion that setting the definition of high performance at 150% of quota makes sense. Conversely, if the market data listed below for strategic account reps, it might suggest that a team where 120% of quota attainment qualifies as high performance is actually underachieving at all levels.

Table 3: Sample Radford Sales Incentive Plan Practices Output for Quota Attainment Distribution

	Average %	Company Count
Overall percentage of quota attainment as a whole:	88.3%	91
Distribution: Average percent of individual contributor field sales personnel at the following levels of quota attainment:		
Achieved more than 150% of quota	6.9%	105
Achieved 125% to 150% of quota	6.5%	105
Achieved 106-124% of quota	12.4%	105
Achieved 100-105% of quota	9.5%	105
Achieved 76-99% of quota	26.0%	105
Achieved 50-75% of quota	17.5%	105
Achieved less than 50% of quota	21.2%	105

Another key input from the Radford Global Sales Survey is the average percent of incentive paid at various levels of quota attainment. The table below serves as an example:

Table 4: Sample Radford Sales Incentive Plan Practices Output for Accelerator Levels

All Companies	Sales Executives (VP and above)		Field Sales Mgmt. (Directors/Managers)		Field Sales Individual Contributors	
	Average %	Company Count	Average %	Company Count	Average %	Company Count
% of Target Paid at 50% of quota	46.6%	83	45.1%	96	45.1%	102
% of Target Paid at 75% of quota	70.0%	93	70/0%	106	69.4%	112
% of Target Paid at 100% of quota	100.0%	99	100.0%	111	100.0%	116
% of Target Paid at 110% of quota	124.2%	96	122.0%	108	119.4%	113
% of Target Paid at 120% of quota	144.5%	94	143.3%	108	137.8%	112
% of Target Paid at 125% of quota	154.4%	90	154.3%	105	145.5%	109
% of Target Paid at 150% of quota	204.7%	88	203.7%	104	194.2%	107
% of Target Paid at 200% of quota	299.8%	83	295.0%	97	279.5%	102

The Commercial Accounts and Strategic Accounts positions in our example are individual contributors and, therefore part of the "Field Sales Individual Contributor" group in the far right-hand columns above. Comparing the average percent of target incentive paid at 150% of quota, our current benchmark for high performance, we see an average payout rate of 194.2%— close to 200%, or the 2.0x of target-incentive mark we established earlier.

While we can use historical data to determine probable levels of high performance and payouts, actual results can vary. Suppose we launched a plan using the accelerator schedule shown in Table 1, and then at year-end, our 90th percentile Commercial Accounts rep hits 250% of quota and the top performing rep reaches 350% of quota. The uncapped 2.0x commissions payments associated with this kind of performance might be exciting for the reps, and a potential boost to morale among other sales employees, but our financial controller may not have accounted for the expense of this scenario.

Few companies in dynamic industries like the technology and life sciences sectors can manage quotas in a way that produces predictable results. That's why some companies use caps or regressive-rate schemes to limit the "tail risk" associated with unexpected high-performance outcomes. Using a robust modeling process helps clarify this risk. Additionally, the Radford Global Sales Survey database also includes competitive benchmarks on the use of caps and regressive rates to help ensure your approach is in line with competitive practices.

In the next section of this article, we take a closer look at why payout caps and regressive rates are a more common, but complex, type of sales commission accelerator.

Multi-Tiered Accelerators

In the basic sales accelerator example described above, we had one inflection point at quota and two commission rates. However, it is far more common for technology companies to use multiple inflection points ("multi-tier" accelerator). For example, only about 15% of software companies in the Radford Global Sales Survey database use a single-tier accelerator for individual contributors. Multi-tier accelerators are preferable for technology companies because they do a better job of managing overall compensation spend across a wide spectrum of performance levels.

Table 5 below illustrates an example of a multi-tier model. By discounting the commission rate below a threshold level of level — under 70% of quota attainment in this case — the company pays far less for lower levels of performance relative to the single-tier accelerator in our first example. The company may want to offer a higher accelerator to those who exceed quota and can use the discounted rate paid to reps performing below 70% performance as a means to fund the higher payouts for high performers.

Table 5: Multi-Tier Accelerator Schedule with Threshold

Performance Level	Accelerator	Commission Rate
<70% Quota	0.71	3.6%
71% to 100% Quota	1.67	8.3%
>100% Quota	2.50	12.5%

Multi-tier accelerators typically require companies to define potential target payouts at the various inflection points. The table below illustrates this concept:

Table 6: Target Incentive Paid at Various Inflection Points

Inflection Point (% Quota)	% of Target Incentive	Accelerator
70%	50%	1.67
100%	100%	2.00
125%	150%	2.50
200%	350%	.50
300%	400%	Cap

In this example, the sales incentive plan pays 50% of the target incentive at 70% of quota, 150% of the target incentive at 125% of quota, and so on. Using targets in this fashion helps to benchmark a job's pay beyond just target performance. The process also helps to clarify the company's sales compensation philosophy and can be used to introduce mechanical features like caps, regressive rates and thresholds.

High performers often cringe at the notion of management capping their pay. Given that a primary function of the accelerator is to motivate high performance, why would companies use caps? Recall the other function of accelerators is to pay competitively for different levels of performance, including exceptional performance. In the context of Table 6, few if any reps will suffer from a cap. But without a cap, the company is exposed to the remote risk of an uncompetitive, as well as expensive, cost structure, particularly in the case of huge deals sold at low margins.

To that end, high-growth companies are more likely to use caps; however, most companies in Radford Global Sales Survey database report using regressive rates out of an abundance of caution about the kind of message compensation caps can send to employees. Regressive rates work to reduce payments above a certain amount of quota achievement, which few reps are expected to achieve. For example, in Table 6 above, this point comes at 200% of quota, after which payments are reduced by 50%.

On the other end of the performance spectrum is a decision about how best to manage pay for low performers. The best way to do this is often through soft and hard thresholds. The use of a discounted commission rate for performance below 70% of quota (Table 5) is an example of a soft threshold. A hard threshold means there is no pay below the threshold level. Implementing hard thresholds can present an issue that's inherent in a step-commission approach, where small, incremental "steps" in performance might yield significant differences in pay.

Both soft- and hard-threshold plans can present cash-flow issues for sales reps on annual quotas with relatively low base salaries (e.g., <60% of target total cash), as performance in the first half of the year can yield little-to-no commissions. Cumulative quotas, where an annual quota is divided into quarters or months with performance calculated on a year-to-date basis, can address these concerns.

Conclusion

Sales commission accelerators may start out as a simple concept, but as you can see, they can quickly become very complex as companies try to manage incentive pay across job types, performance levels and business dynamics. Before making any changes to your current sales accelerator approach, it's important to consider all of the key questions below:

- Do we have enough historical sales team performance data available to help us assess where to put accelerators in place; that is, at the right inflection points where a sales commission boost will actually drive higher levels of performance?

- Do we have a solid understanding for how potential accelerators might impact compensation outcomes below target, at target, above target and top performers? And, how will respective pay levels then compare to market benchmarks?

- Do we have a financial model in place to account for expected payout outcomes after an accelerator is put into place? Does this model predict reduced compensation expense or improved return on investment for sales compensation expense?

- Do we have appropriate incentive plan caps in place to prevent unintended compensation windfalls, especially if accelerators kick-in to boost payouts?

Every type of sales accelerator has its pros and cons. It's important to understand these tools and utilize the best model for your company's unique situation.

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