



# THE **ULTIMATE GUIDE** TO DESIGNING SALES COMPENSATION FOR PERFORMANCE

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Motivate your sales team with strategic performance compensation and drive them to success



# The Ultimate Guide to Designing Sales Compensation for Performance

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What is sales compensation? It's the driving force that motivates salespeople towards their targets and company goals.

In other words, money drives actions and actions achieve results.

There are a lot of additional factors such as culture, training, managerial support, your product/service, and more - but compensation is proven to be a primary driver for salespeople.

A well-designed sales compensation package will lead to a high performing salesperson, sales team, and company.

Given the impact of sales compensation on success, companies face many challenges when designing it.

From determining which compensation structure to choose, identifying and aligning compensation with business objectives, and ensuring the chosen structure is fair, clearly communicated and accurately paid to employees.

How do you motivate your sales team with strategic performance compensation and drive them to performance success? Read on for the bta Sales guide to designing sales compensation for performance.



# 1

## Align sales strategy with business strategy



*One of the challenges of designing a strong sales compensation plan is ensuring that it encourages the sales team to behave in a way that supports the company's strategy. That is, companies must shape sales compensation based on business strategy.*

- **bta Sales Managing Director Steele Baillie**



Before choosing a sales strategy structure, consider your company's objectives. Understanding business goals helps to determine what success looks like for your company, and what sales strategy will help reach those goals.

According to HubSpot, common business goals include increasing revenue, cash flow, average contract length, average deal size, percentage of repeat customers, retention rate, and upsell or cross-sell rate.

Other secondary goals could include acquiring well-known customers, lowering expenses, driving sales for specific products, increasing the number of specific customer type, reducing discount frequency, reducing average discount size, acquiring "seed" accounts, and managing deal flow.

Having a solid understanding of primary and secondary business objectives allows you to structure sales strategies in a way that motivates your sales team towards achieving goals that address these objectives. As business goals change, review and update compensation plans accordingly to ensure sales teams are encouraged to act in a way that meets these new business objectives.

Once business objectives are identified, a company can choose a sales strategy structure. Sales strategy may be a combination of base salary, commission, and incentives and is discussed in more detail in the next section.

# 2

## Understanding different sales compensation structures

There are many different sales compensation structures and combinations in which you can use them. Before confirming a sales strategy, research the different sales compensation structures, and consider their impacts on sales team performance.

On the next page we look at some of the most common options being:

- Salary Only
- Base Plus Commission / Base Plus Bonus
- Commission Only

## SALARY ONLY

Using a fixed sum annual salary only compensation structure is rare in sales organisations as it doesn't connect pay with performance. Salary is paid regardless of a salesperson's behaviour and results, removing the motivation to perform beyond minimum targets.



*A salary only compensation strategy is best for roles that don't focus entirely on selling. With no incentive to excel, salary only compensation is likely to attract salespeople that may be less "hungry" to overachieve.*

- bta Sales Managing Director Steele Baillie



A salary only structure provides security but no financial incentive for the salesperson to overperform. It is best used for smaller sales teams that work collaboratively on projects, or when salespeople are required to spend large amounts of time on responsibilities that aren't selling and achieving sales targets.

Some argue that a salary only approach to sales compensation can help your sales team become more customer-centric and encourage behaviour more aligned with your best interest.

This approach has been adopted by a small number of sales organisations, a prominent example being CultureAmp. At CultureAmp the salespeople work on a salary only basis to help encourage cooperation and a customer-centric culture. Instead, CultureAmp have a business-wide bonus structure based on company performance - [read more here](#).

The general consensus, however is that a salary only compensation runs the risk of achieving mediocre results. Top performing talent are likely to move to competing companies where they can earn extra compensation for their efforts.

## BASE PLUS COMMISSION AND BASE PLUS BONUS

The base plus commission and base plus bonus compensation structures are very common in the sales industry. Employees are paid a fixed base salary as well as a commission or bonus, providing the stability of fixed pay, combined with a healthy incentive to perform.

According to HubSpot, the industry standard is a 60% fixed to 40% variable split, although this can vary depending on the sales role, industry and company. For example, a role that is focused on new business development may have a percentage split with higher variable (say 75%) and lower fixed split (say 25%) compared to a role that focuses more on account management.

An article by David K. Williams in [Forbes](#) suggests a more dramatic approach, "I strongly advocate a 90/10 ratio, meaning 90 percent of compensation should come from commission. What I've found is that many salespeople simply aren't cut out for such a dramatic earnings ratio. But the ones who are attracted to this commission structure are consistently the best. That's because the best salespeople are the ones who are not only good at what they do, but they also know they are good at what they do."

A mixed structure offers employers a degree of clarity over expected compensation costs and attracts higher-performing candidates who strive to achieve great results. While a base plus bonus structure only motivates salespeople to reach a predetermined performance target, a base plus commission structure encourages salespeople to go beyond expectations if earning potential is uncapped.



*Base plus commission is the most common sales compensation used by businesses and for good reason. Employees have the stability of a fixed salary, paired with the motivation of commission. This helps them feel rewarded fairly for their hard work.*

- **bta Sales Managing Director Steele Baillie**



This model appeals to most organisations as there is a direct link between business strategy and sales remuneration, with the mixed model appealing to both employer and salesperson.

### **COMMISSION ONLY**

No performance, no pay.

A commission only structure connects 100% of pay with performance. Pay is completely variable and a salesperson is required to work for every dollar they earn.

The theory is that when you align 100% of pay with performance, great salespeople work harder towards overachieving their targets, while lower performers will swiftly move on of their own accord.

The reality is that commission-only models have some significant drawbacks, including:

- Leading to high staff turnover, which can damage the customer experience
- Sales teams becoming driven by short-term results, encouraging "cut throat" behaviour
- The lack of security of commission-only roles, which can significantly reduce the talent pool willing to work with your company

Commission-only models seem to work the best when someone has worked within a company for a period of time and voluntarily decides to move to a commission-only model in return for a higher overall OTE.

An example of this might be a real estate agent that has successfully worked on a base plus commission role for several years with his employer, and voluntarily decides to move to commission-only in the hopes of achieving a higher overall compensation.



*While commission-only might be attractive to some employers due to a pay-for-performance model, this approach also has some significant drawbacks. This model can encourage behaviour that isn't in your company or customers best interest. Many salespeople will avoid commission only salary structures as they lack security and are frowned upon by financial institutions if you are making major financial decisions such as buying a house.*

- bta Sales Managing Director Steele Baillie



### 3

## Calculating commission

If you have made the decision to go with a base plus commission or straight commission model, you now have some decisions to make around how it is calculated.

The three most common options here are:

- **Absolute Commission** - A "do this, get this" commission structure eg. salespeople are paid 10% commission on all sales.
- **Relative Commission** - A quota based structure.
- **Blended Commission** - Combination of relative commission and some non-financial performance measures.

### ABSOLUTE COMMISSION STRUCTURE

An absolute commission structure pays the employee commission for specific activities or milestones. The "do this, get that" nature of the arrangement makes it very easy for salespeople to understand their goals, and because they're paid for every achievement, they're motivated to sell more.

For example, if revenue for a sale is \$500 and you pay your employee 5% on every sale, they will receive \$25 per sale. Another example is to pay a percentage of the value for new accounts, upsells or cross-sell.



*The absolute commission structure is great for motivating teams towards a goal, yet, sometimes fails to take into account the market, the number of opportunities, and the quality of leads. While one salesperson may be succeeding on the absolute commission plan, another may not be receiving the same quality leads.*

- bta Sales Managing Director Steele Baillie



Employees will act in the interest of getting paid, so you must connect absolute commission to sales actions that achieve company goals.

### **RELATIVE COMMISSION STRUCTURE**

A relative commission plan pays based on specific activities or milestones but uses a quota or target. In most cases, an employee must meet 100% of the quota to receive the “on target earning” (OTE) or “at plan” commission amount.

For example a salesperson’s yearly quota might be \$500,000 in new business. At-plan commission is \$50,000, and base is \$80,000. Their OTE is \$130,000.

**HubSpot** suggest that “the ‘ideal’ OTE ratio is considered to be six to eight times their quota, however this varies significantly between new business and relationship management based roles, and the organisations average sales price and timeline.”

Each salesperson may have a slightly different quota based on their sales objective or territory. If one milestone or target is easier to achieve or has stronger leads, that salesperson may have a slightly higher quota than that of a more difficult target.

Relative commission is a great way to connect company goals to compensation. Different quotas can be set against different objectives, using higher quotas to highlight priorities and encourage certain actions.

An example of how many companies structure a relative commission plan might be:

- From 0 - 60% of quota attainment, you earn 40% of your OTE commission target
- From 60 - 100% of quota attainment, you earn 60% of your OTE commission target
- From 100% of quota attainment, you earn a multiplier rate of commission on all additional sales

## BLENDING COMMISSION STRUCTURE

This model calculates commission based on a combination of both financial and non-financial measures. Non-financial measures might include things such as customer satisfaction, customer retention, or activity-based KPIs such as number of sales calls completed.

An example of how a blended commission structure might look is that a salesperson is given both a relative commission structure and a customer satisfaction target. Their total compensation structure is then calculated on a blend of the two.

**Example 1:** A salesperson has an annual commission target of \$50,000. 80% of this is calculated based on a relative commission structure, and 20% of this is calculated on achieving an average customer satisfaction score of over 90%+ for the year.

**Example 2:** A salesperson has a monthly commission target of \$3,000, calculated under a relative commission model. They are also given activity-based KPIs that are measured on a monthly basis. If they achieve their relative commission target of \$3,000, but only complete 90% of their activity-based KPIs, then they might only receive 90% of their total commission payout.

In this manner, a blended commission structure can be used to encourage both sales performance and positive sales behaviours around customer satisfaction, customer retention, etc. This model has some great advantages when done properly - but the challenge in implementing this effectively is properly measuring the non-financial metrics, and achieving the right balance between financial and non-financial measures.

## 4

### How to set a quota

You should always use a data-driven approach when setting quotas. Involving sales leaders in the process and making it a collaborative plan can help ensure quotas are achievable and teams are on-board. There are two approaches to setting quotas, top-down and bottom-up approach.

Download our [Sales Compensation Resource List](#) for help setting your quotas.

When considering which compensation structure is right, a company should also consider:

- The level of seniority
- The level of autonomy
- The level of experience
- The nature of the territory
- The amount of time spent not selling
- The kind of selling required

## 5

### Decide between commission based on revenue or gross margin

Should you pay commission based on sales revenue or gross margin?

Gross margin commission is best used when a company's primary goal is for profitable sales growth, when salespeople can control profit, when gross margin is measurable at territory level, and when the company has higher margin products it wants to push.



*Basing commissions on gross margin rather than revenue can have many advantages. For example, focusing the sales team on selling high margin products and dis-incentivising discounting to close a sale. A gross margin focus can also encourage your team to focus on selling high-profit products.*

- bta Sales Managing Director Steele Baillie



## 6

### Consider whether to use accelerators and decelerators

After determining which sales compensation structure will best drive performance in your company, the next step is to decide whether accelerators or decelerators are right for your business.

An article on [Forbes](#) suggests, "meeting and exceeding sales goals is key to a business's overall growth trajectory. Thus, it's important to create a tiered commission structure to clearly and transparently push sales teams toward specific sales thresholds."

Accelerators are a powerful sales compensation tool. Using an accelerator is a great way to motivate salespeople beyond their sales quotas. As the motivation for salespeople to perform increases exponentially with accelerators, so does the need to pay commissions if targets are met.

Mike Martin from The Carrot explains that if a salesperson reaches the success zone of 110% of their quota, "the payout range in this "success zone" can be 3x the payout rate in other performance zones and helps to maintain motivation even after the quota has been achieved. Companies that use this approach effectively create a stretch goal setting scenario for the reps."

While accelerators encourage overperformance, decelerators penalise underperformers. For example, if someone only reaches 60 - 90% of their quota, the payout rate may be reduced to 0.5x that in other payout zones.



*Accelerators and decelerators can drive sales teams to greater performance, but it is important to consider the impacts of using these strategies. Decelerators can seriously demotivate teams, especially when targets are missed repeatedly. Accelerators can also go too far the other way, creating fierce competition between sales teams. Finding the right balance is important.*

- bta Sales Managing Director Steele Baillie



## 7

### Should you use draw against commission?

The draw against commission structure gives the salesperson a chance to advance an amount of money at the beginning of each pay period.

There are two types of draws, recoverable and non-recoverable. A recoverable draw is when the amount drawn upon is deducted from the salesperson's commission earned over time. A non-recoverable draw is when a draw amount is established and is paid even if a salesperson doesn't reach their commissions without paying back.

The draw method is usually used for new hires or complex products or services with a lengthy or seasonal sales cycle. This structure reduces the employee's cash flow concerns and their perceived risk.

## 8

### Determine if you should use a clawback

A clawback is when a company retracts or "claws back" paid commissions due to pre-determined factors. Common clawbacks in sales organisations include a retraction on low-performing months, when a customer is not retained for a certain period of time, or if a sale is refunded.

Clawbacks make sales consultants more accountable for closing relevant customers, but can result in low employee morale.



*If you're planning to use a clawback clause it is important to be upfront and clear with employees. Discussing clawbacks is important in ensuring everyone is on the same page. The parameters of a clawback should be transparent and well understood by employees.*

- bta Sales Managing Director Steele Baillie



## 9

### Consider non-cash rewards

With all this chat about cash, it's important to remember the value of non-monetary incentives. Non-monetary rewards such as monthly team outings, a nice meal at a restaurant, team building activities, an extra day of leave, or an impromptu party or celebration for hitting targets can help build enthusiasm, relationships, and team spirit.

An article on For Entrepreneurs says, "The traditional "President's Club" type vacation awards continue to be used for good reason – they are strong, very public motivators."



*At bta Sales we encourage and reward our high-performers with an annual sales incentive trip to Bali where they are able to relax and engage with their team on a social basis. This helps us recognise and retain our top performers while also giving everyone in the team something tangible to work towards achieving.*

- bta Sales Managing Director Steele Baillie



A few of our favourite non-monetary reward venues include:

## **SYDNEY**

### **Holey Moley**

This is mini golf beyond your wildest dreams. With multiple locations in Sydney (and some in Melbourne and Brisbane too) this mini golf course plus bar turns traditional putt putt into a multi-sensory labyrinth of unique holes. Plus, their cocktails and tunes will be a winner with the team.

### **Margarita Masterclass**

The team at Mejico Restaurant know where it's at. Their Tequila and Margarita Masterclasses are a little educational but a whole lot of fun. You'll learn to make your favourite cocktail and appreciate tequila along the way.

### **Cafe Sydney**

A REALLY delicious meal with a REALLY stunning view. Need we say more? Cafe Sydney is perfect for treating the team to a long lunch or boozy dinner that they'll love you for.

## **MELBOURNE**

### **Zero Latency VR**

With state-of-the-art wireless technology and motion tracking, Zero Latency take you inside the game, where your body is the controller and your mind believes it's real. Choose from battling zombies in Zombie Outbreak, taking on a military space station in Singularity, or question everything you know in the Engineerium.

### **TRAPT**

A bar and escape room in the heart of the CBD, we hear there's a Harry Potter room coming soon. For now, you can enter the magical world of alchemy, race against the doomsday clock, or fight the law during the prohibition. And yes, there's a bar.

### **Rockpool Bar & Grill**

Great steak and an impressive wine list. Take your team here to celebrate and your taste buds (and your team) will thank you.

# 10

## Make sure your compensation structure is fair

Does your sales compensation plan fairly reward salespeople?

A salesperson's hard work deserves to be compensated in a way that reflects performance. Team members should also be rewarded equally for their efforts.

To ensure fairness, look at how payment is distributed among salespeople and accounts. If you notice any discrepancy between performance and rewards, investigate to determine the root cause, and adjust it.

Other factors you may need to take into account when evaluating if your sales compensation plan is fair include:

- Economic impacts in the industry
- Compensation for sales professionals in competing companies
- The previous performance of team and employees
- Building quality relationships
- Established territories vs. new territories

Inability to pay fairly can lead to high and unwanted turnover, competition amongst sales teams, low employee morale and performance, and difficulty recruiting the best salespeople.

# 11

## Effectively communicate sales compensation

Properly communicating with employees is a vital step in ensuring your compensation plan results in high performance. Whether communicating with a new hire or implementing a new plan for existing sales teams, it is important to take plenty of time, stay positive, answer all questions, and communicate in person.

New plans can be met with resistance from the sales team and sales management. To combat resistance, sales teams should understand the plan, why you're making changes, and how these changes will impact them.



*When communicating a compensation plan, focus on the main benefits to the employee, and how they can maximise their earning potential. Be sure to show how targets align with the business goals and use this time to reinforce the sales strategy.*

- **bta Sales Managing Director Steele Baillie**



Use examples and "what-if" calculators to help salespeople understand what they need to do to earn more. Schedule one-on-one plan review meetings with sales leaders, create plan documents, FAQs, tutorials, and Q&A sessions so that everyone has a chance to ask questions and fully understand the new structure.

# 12

## Pay accurately, promptly, and clearly

Now you've got a solid sales compensation structure. It's fair and has been communicated with teams. You must now follow through on the plan.

Making sure you pay, and making sure you do it in a timely manner is essential. Failure to do so will lead to lower employee morale, lack of trust, less than optimal performance, lost sales time due to spending more time on accounting, unwanted employee turnover, and difficulty in recruitment. Organisations can be out of compliance and subject to fines if they fail to pay sales compensation.

According to XactlyCorp, paying accurate sales compensation is a significant challenge for organisations with only 18% of companies report paying at a > 99% accuracy rate. Reasons for inaccurate payment of compensation include poor upstream data quality (42% of respondents), inflexible technology (24% of respondents), inefficient processes, highly manual processes, insufficient resources (30% of respondents), and limited reporting (69% of respondents don't track accuracy as a metric).



*The more complicated the sales compensation plan, the more complex its administration. It is essential that companies are clearly communicating and accurately calculating their sales compensation for it to have a positive impact on business performance.*

- bta Sales Managing Director Steele Baillie



# 13

## Refine, evaluate, and improve

Once implemented, your plan should be continuously monitored to see if adjustments are needed. As you check your sales compensation plan, focus on business objectives. A few questions to ask yourself include:

- Are the sales objectives clear?
- Does everyone understand how the plan works?
- Is there a clear relationship between pay and performance?
- Are incentives encouraging the way they should be, or are the team displaying counterproductive behaviours?
- Are we on track to reach our company goals, both top-line and from the cost of sales compensation?
- Who are the top earners and why?
- What is my overall compensation payout vs. budget?

Continual evaluation will ensure business objectives are being met, sales teams are happy, and required changes to sales compensation can be identified and addressed quickly. Failure to continually optimise may lead to lower revenue and margin, lack of sales growth, missed quotas or goals, payments above budget, and high turnover rates.

# A final word on sales compensation

Designing sales compensation that encourages performance is a detailed process. To ensure salespeople are displaying the desired sales behaviors, a company must link sales strategy with business strategy.

There are many different options when it comes to sales strategy and choosing the right combination for your organisation takes time and research. While the base plus commission structure is most widely used in sales organisations, other structures warrant consideration and more detailed compensation strategies such as clawbacks, accelerators and decelerators, and draws against commission should be considered.

After researching, a company must then consider how to structure commissions for different sales team members and ensure they are fair, communicated and paid. An ongoing evaluation process can help evaluate these considerations and ensure high employee morale, trust, and performance.

bta Sales are Australia's largest and longest serving recruitment agency dedicated to the sales industry. That means we know how businesses design their sales compensation strategy.

If you are hiring for a new salesperson and want to know how your sales compensation strategy compares, we can happily give you some recommendations.

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