CORPORATE EXECUTIVE BOARD™
WHAT THE BEST COMPANIES DO

Select Metrics for your Comp Plan

Metrics for Sales Compensation Plans

Instructions: If you are wondering whether or not to use a specific metric in your comp plan, the following tables summarize key information related to the most common metrics. They are divided into two categories:

1. **Core metrics for comp plans:** any comp plan should have at least one of these metrics
2. **"Signal value" metrics:** best used to draw reps' attention to specific goals for a limited period of time

Core Metrics for Comp Plans ***Any comp plan should have at least one of these metrics***			
Metric (% companies using)	**Objectives it is meant to support**	**Unintended consequences to watch out for**	**Our advice**
Gross revenue/ volume (63%)	• Unit volume • Revenue maximization	• Excessive use of discounting to close deals • Driving to close the first available deal instead of surfacing new needs	• Comp plans that include *only* revenue metrics tend to be less effective than those that also include a non-revenue metric. • If reps do not control pricing, a revenue metric can accomplish profitability goals by itself.
Profitability (39%)	• Deal profitability • Reduced discounting	• Decreased motivation to aggressively close deals • Conflict with new customer acquisition, which typically occurs at lower price points	• A profitability metric is only needed when reps control pricing and/or when non-price components of a deal (e.g. terms and conditions) can incur major costs. • Strongly communicate to reps what is and is not an acceptable margin—this gives reps the certainty they need to make tough calls on when to walk away from business
Sales of specific products (30%)	• Sales of difficult-to-sell products • Sales of strategically important products	• Neglect of products with weaker incentives • Confusion, if too many products carry separate metrics	• Don't include metrics for more than 3-4 different products

"Signal Value Metrics" (1)

Best used to draw reps' attention to specific goals for a limited period of time

Metric (% companies using)	Objectives it is meant to support	Unintended consequences to watch out for	Our advice
New revenue (41%)	• Pushing reps to sell more (more of the bag, new customers) instead of living off renewals	• Unrealistic expectations and quotas: this type of selling is harder than many executives think • Excessive aggression in pushing existing customers to buy more	• Compared with a "new account acquisition" metric, this metric is agnostic as to whether new revenue comes from new accounts or up-selling existing customers. • Comp alone is insufficient to drive up-selling/ cross-selling; you will likely need structural changes to put the right skills in the right places.
New account acquisition (10%)	• Focusing reps on hunting activities • Growing/stealing market share	• Neglect of existing relationships • Increased discounting to meet account acquisition targets	• "New account" should refer to any new economic buyer to whom a rep has to sell. • If you add this metric, reduce or eliminate the profitability metric—this signals that aggressively closing business is more important than strict margin maintenance.
Cross-sell performance (5%)	• Cross-sales • Encouraging cross-silo lead-sharing	• Opportunity cost of time spent generating leads for others • Increase in cost of sales • Unrealistic expectations and quotas: cross-selling is harder than many think	• A common method of rewarding cross-sales: give reps credit for sales they facilitate, regardless of who closes the sale. • Reps should not earn an incentive for passing leads that do not ultimately close. • Comp is necessary, but not sufficient, to motivate cross-selling.
Customer retention (10%)	• Focusing reps on closing good-fit, long-term business • Customer satisfaction	• Excessive compensation for easy renewals	• Paying hunter reps for renewals can improve the fit of the business they bring in, by giving them more of a stake in customers' lifetime value.
Customer satisfaction and other customer-driven metrics (13%)	• Discouraging short-term behaviors that damage long-term customer loyalty	• Satisfaction does not equal loyalty: satisfied customers can and do defect. • Hard to measure accurately: dissatisfied customers are more likely to fill out surveys than satisfied ones.	• Instead of customer satisfaction, we suggest linking pay to **customer performance** on the outcomes promised by your value proposition, such as cost-savings or time saved. • The customer metric must meet two conditions: ▪ Directly in the rep's power to influence ▪ Measurable and verifiable by the customer

"Signal Value Metrics" (2)

Best used to draw reps' attention to specific goals for a limited period of time

Metric (% companies using)	Objectives it is meant to support	Unintended consequences to watch out for	Our advice

Activity-based metrics (12%)	• Motivating support roles who do not close deals
	• Giving reps controllable goals to work toward in situations where short-term sales are difficult:
	  ○ In long sales cycles
	  ○ During recessions
	  ○ For new hires
		• Reps "game the plan" by simply doing more of the activities for which they get paid
		• Payouts for completion of activities on sales that never close
		• Reduced rep flexibility to adapt to varying situations
			• In general, do not include activity metrics in the comp plan: pay for results, not activities.
			• If you want to evaluate reps on activity metrics, put them in performance reviews.
			• Activity-based metrics are most appropriate in highly transactional environments

MBOs/ behavioral objectives/ competencies (9%)	• Skill acquisition
	• Giving reps controllable goals to work toward in situations where short-term sales are difficult:
	  ○ Long sales cycles
	  ○ Recessions
	  ○ For new hires
		• Paying reps for activities with tenuous link to sales
		• Reduced objectivity of measurement can damage the incentive's perceived fairness
		• Reps meeting their MBOs *exactly*, and nothing more
			• In general, use MBOs in promotion criteria rather than the comp plan.
			• MBOs, on average, count toward only 7% of variable pay, and should not count toward more than 20%.
			• If multiple MBOs are important, incorporate them into an index that acts as a single metric.

Cash flow metrics (7%)	• Pushing reps to collect payment • Rewarding terms and conditions that frontload payment	• Opportunity cost of time spent collecting on past sales	• Typically, companies encourage collection not through a separate cash flow metric, but by defining the revenue metric in the comp plan as "cash received" rather than "order received."