



2018 ANNUAL COMPENSATION REPORT

FOR TECHNOLOGY SOLUTION PROVIDER COMPANIES



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How do other companies pay their sales reps?

What are sales quotas and expectations?

How are companies paying for Project, Managed Services, and Cloud sales?

What does a good compensation plan look like?

THESE ARE THE MOST COMMON QUESTIONS WE HEAR FROM SOLUTION PROVIDERS WHO ARE EVALUATING THEIR **COMPENSATION PLANS** AND THINKING ABOUT SETTING QUOTAS. WITH THE SHIFT TO MORE **RECURRING REVENUE AND CLOUD SALES**, THERE ARE NEW CHALLENGES TO THE SALES COMPENSATION PUZZLE.

Introduction

Sales compensation can be one of the more difficult tasks you face as an executive in the technology resale industry. The industry transformation to cloud technology and services have added a layer of complexity that many haven't seen before. With the change of what Solution Providers are offering to their clients, comes challenges on how to ensure sales teams are selling the solutions that drives financial success both for the sales professional as well as the business.

With that in mind, we've surveyed executives at successful Unified Communications (UC) providers, Managed Services Providers (MSPs), and Audio Visual (AV) System Integrators. From the results we've uncovered trends and best practices.

REPORT AUTHORS

The 2018 report is authored by Ian Pugh of GreatAmerica and Mike Schmidtman of Trans4mers.

Mike Schmidtman coaches business owners and sales leaders for Solution Providers across the US. He works to drive results in sales recruiting, new business development, and profitability. Mike built and led sales organizations for successful Unified Communications companies for more than 20 years. Mike produces the award-winning Trans4mers webinar series on IT sales and management subjects. He contributes content for IT channel publications, and is a frequent public speaker on business and sales topics.

Ian Pugh is the Director of Strategic Programs for the Unified Communications & IT Group at GreatAmerica Financial Services. Prior to working for GreatAmerica, Ian spent 15 years in leadership, sales and marketing roles at Gsolutionz Inc., a UC and collaboration provider in California. During that time, Ian transitioned Gsolutionz from a product resale organization to a cloud provider, including compensation plans.

**MIKE
SCHMIDTMANN**

OWNER, TRANS4MERS LCC



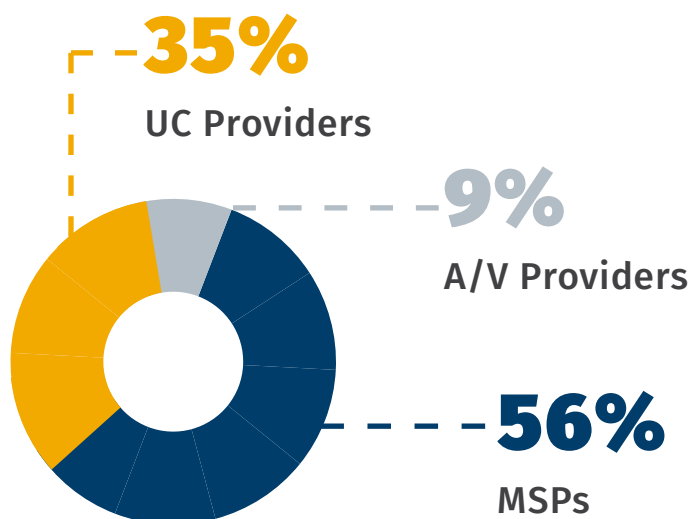
IAN PUGH

DIRECTOR, STRATEGIC PROGRAMS
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Executive Summary

AUDIENCE



78 survey responses

There were 78 responses to our survey, giving us insights into the compensation of more than 400 individual sales people.

Respondents were executives of Managed Service Providers (MSP), IT firms, Unified Communications and cloud communications providers, and Audio/Visual System Integrators; a majority of respondents being both MSPs and UC solution providers.

METHODOLOGY

Due to the complexity in many company's sales compensation practices, some surveys were conducted in phone interviews. The majority of responses were collected via the survey platform, Get Feedback.

COMPENSATION VARIABLES

We counted 24 compensation variables in total, making it virtually impossible to compare plans in a simple way. These variables include:

Base Salary	Draws	Commissions	Splits
Thresholds	Quotas	Accelerators	Spiffs
Expense Allowances	House Accounts	Attach Rates	Bonuses

ON TARGET EARNINGS

We tried to normalize all the variables by reducing the comparisons by role into a few simple metrics, such as Salary, Quota, and On-Target Earnings. In other words, answering three questions:

- How much do you earn if you don't sell anything?
- How much are you expected to sell?
- How much money will you earn if you sell to your expectation?

We are hoping these three metrics will normalize the dizzying complexity in trying to compare different plans with multiple components.

COMPENSATION TRENDS

While comp plans are definitely becoming more complex, the actual payouts are expected to be the same or even greater in the years ahead.

We are seeing more Cloud commissions and quotas, and usually as a separate standalone calculation that is tacked on to the existing compensation plan.

HOW COMPENSATION IS EVOLVING

Sales compensation over the past 30 years has evolved in the following path.

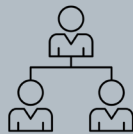
Commission paid as a percentage of:

- Revenue (most popular method more than 25 years ago)
- Gross Profit (most common plans over the last 25 years)
- Quota Attainment (increasingly popular over the last 10 years)
- Hybrid Plans: Attainment in Multiple areas: e.g. Project – MRR – Cloud – Pro Services

The final category, the hybrid plans, are becoming increasingly common as sales organizations try to get their sales teams to sell the entire breadth of the product offers. Any salesperson who sells exclusively in one area (for example project sales) will be penalized for not selling MRR, Cloud, and other services.

2018 Compensation Survey Findings

In the survey, we asked executives to report on the size and what roles make up their sales organization, what their quotas are, how much the sales people make in salary and what their on target earnings are. The results of the survey are broken down likewise:



NUMBER OF SALES PROFESSIONALS



QUOTAS

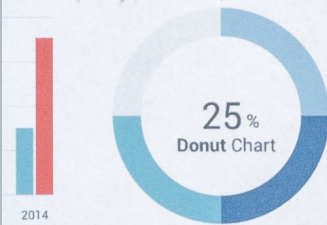


SALARIES

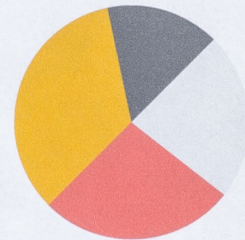


ON TARGET EARNINGS

Donut Chart



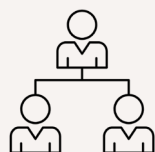
Pie Chart



NUMBER OF SALES PROFESSIONALS

The average number of sales people of those we surveyed was seven, with a few outliers driving the number up. Most of the companies that responded had fewer than 10 sales reps in their organization.

TOTAL SALES PEOPLE



0 - 2

MINIMUM

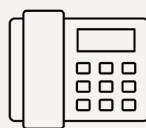
7

AVERAGE

60

MAXIMUM

AVERAGE BY INDUSTRY



10

Unified Communications



8

A/V System Integrator



5.5

Managed Service Provider



QUOTAS

Quotas are important because they inform the sales person what they have to do to succeed. If you miss the mark in quotas, you can make or break a commission-based employee's earnings, which could also lead to challenges in your company's cash flow.

We asked companies to provide us with what their quotas are for Gross Margins, Monthly Recurring Revenue (MRR) as well as Cloud sales. During the survey we defined Cloud sales as a subscription for product solutions or software sold or resold by the provider. MRR is considered any service that is sold on a monthly recurring basis, like Managed Services or Maintenance Contracts.

We looked at both Account Executives as well as Senior Account Executives since there tend to be differences on expectations.

The Quota Change for 2019

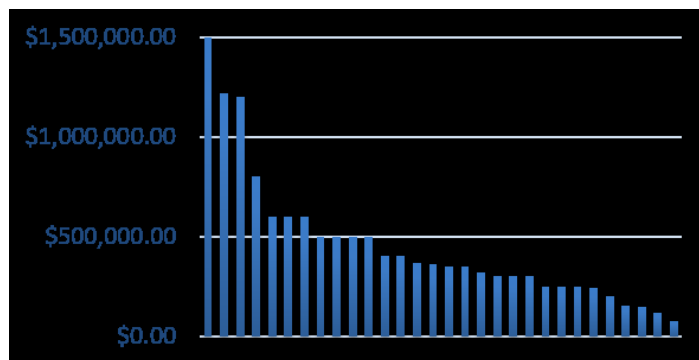
Many companies commented during this section of the survey they plan to decrease Gross Margin quotas in 2019 in favor of quotas for MRR and Cloud. This implies companies are putting less emphasis and expectations around projects, and more around MRR and cloud sales.

Account Executive Quotas

Gross Margin Quotas

Average of \$500,000

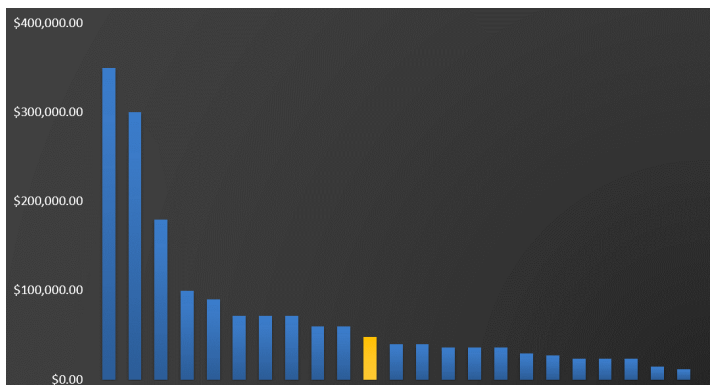
When it comes to Gross Margin quotas, there is little difference between the IT and UC industries. The center of gravity is around \$500,000 annually for Gross Margin quotas, with the high range being up to \$1.5 million and down as low as \$7,500.



MRR Quotas

Median \$36,000/year, \$3,000/month

The quotas for MRR and Cloud get a bit murky, with some companies combining them.

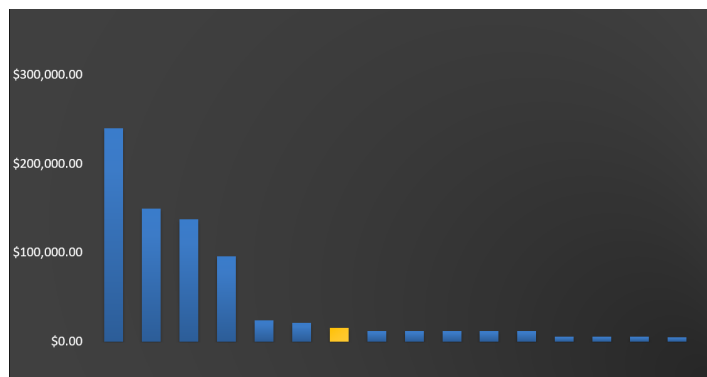


Geography played more of a significant role in MRR quotas with NFL cities as high as \$144,000 in annual MRR (\$12,000 monthly) where major metros and rural communities had annual MRR quotas closer to \$36,000 (\$3,000 monthly).

Cloud Quotas

Median \$12,000/year, \$1,000/month

Cloud by far had the fewest responses for sales and compensation, as many are trying to better understand how to create incentive plans around cloud and recurring. Quotas ranged from \$5,000 annually up to \$250,000, with the average (mean) being around \$12,000 annual cloud sales.



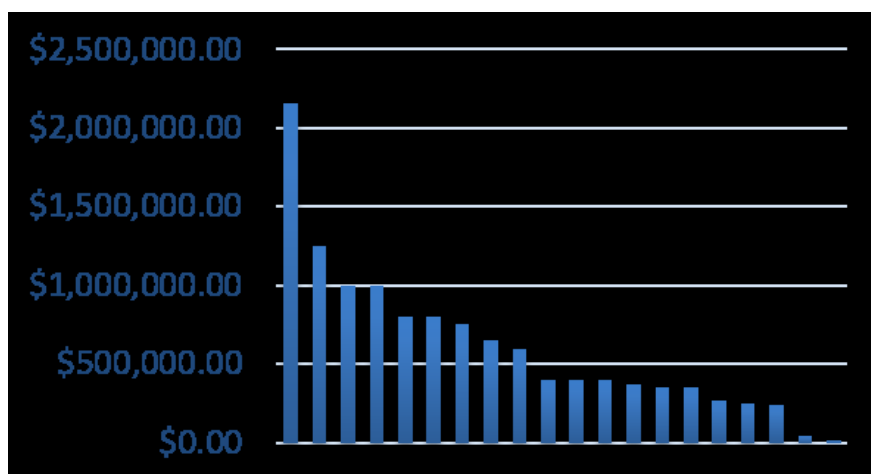
Senior Account Executive Quotas

There were fewer responses for the Senior Account Executive role, as many companies shared they don't have two classifications of Account Executives.

Gross Margin Quotas

Average of \$500,000

As expected, the Gross Margin quotas for Senior Account Executives were slightly higher than the Account Executive role. Geographically, Senior Account Executives in NFL cities have quotas between \$150,000 and \$200,000 higher than the rest of the country.

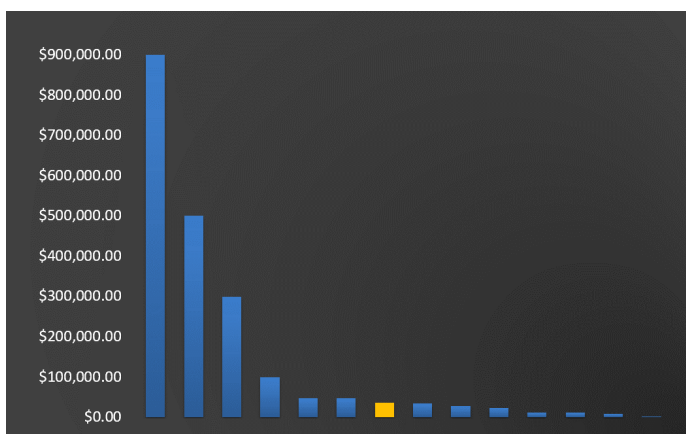


MRR & Cloud Quotas

A few organizations with large MRR quotas pushed the average up, but the center of gravity is similar to Account Executives at around \$3,500 monthly quota. Cloud results were also similar with fewer companies having specific quotas for cloud sales.

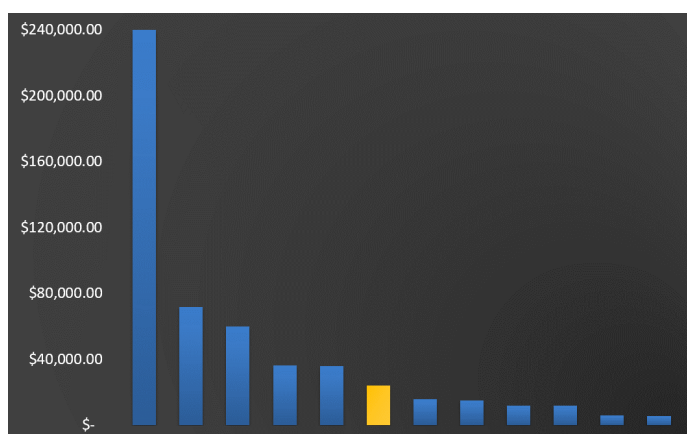
MRR Median

\$42,000/year, \$3,500/month



Cloud Median

\$22,000/year, \$1,850/month



SALES SALARIES

We also collected information on base salaries during this survey, and broke it down the findings by role and by geographic type.

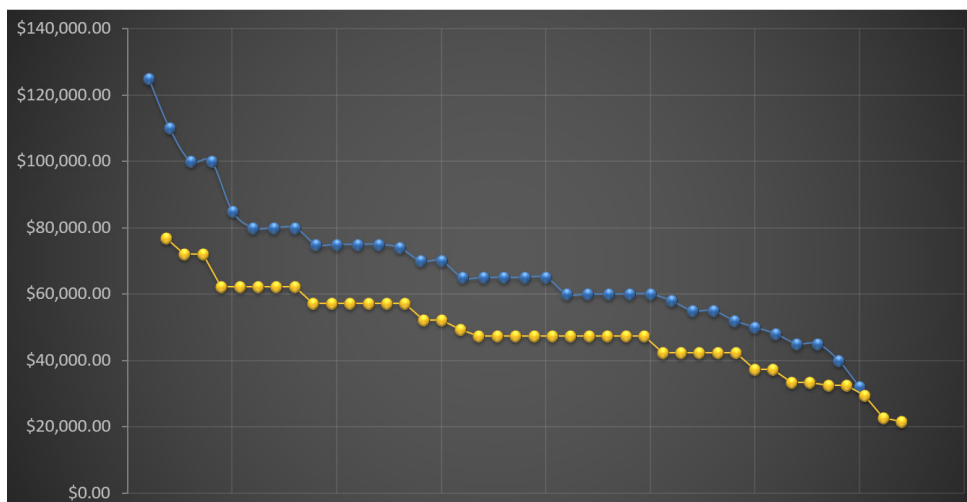
	Sr. Account Executive	Account Executive	Inside Sales	Sales Dev. Rep
NFL City	\$70,000	\$53,000	\$49,000	\$50,000
Major Metro	\$73,000	\$47,000	\$46,000	\$50,000
Rural	\$54,000	\$45,000	\$40,000	\$26,000

Distribution

Here is how the range of salaries was distributed across the 78 companies:

Blue = Senior Account Executives

Gold = Account Executives

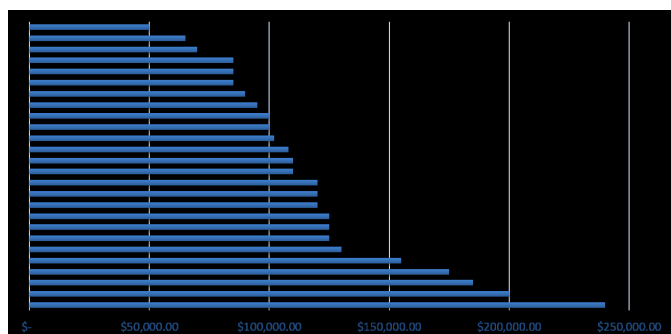


On Target Earnings

This is how much sales reps earn when they are at 100% of their sales expectation:

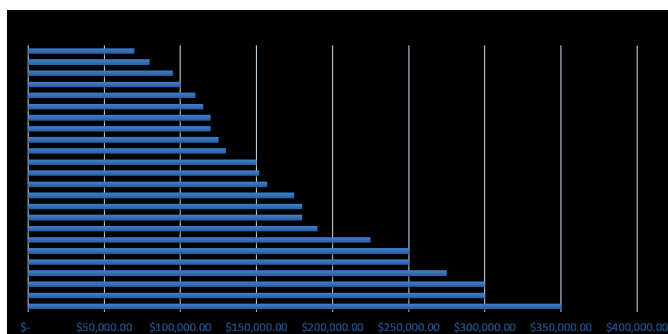
Account Executive

Average \$110,000



Sr. Account Executive

Average \$169,000



Variability of Compensation

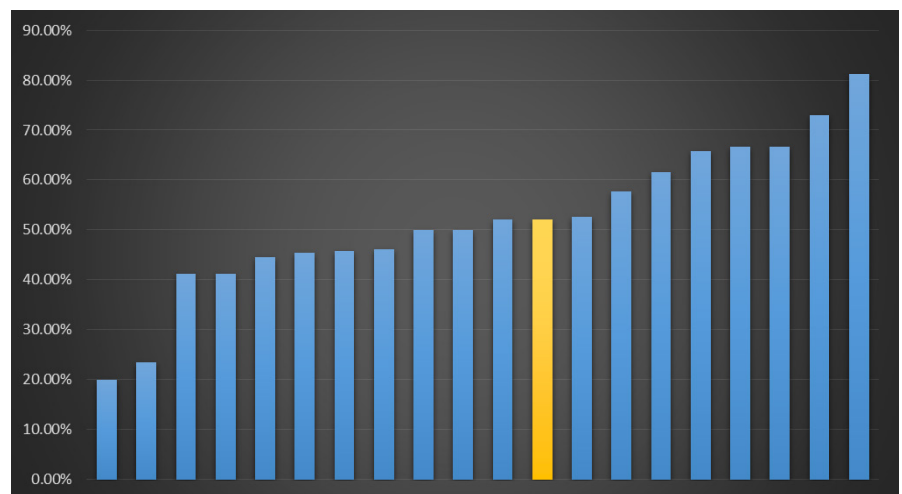
Variability measures how much of total on target earnings is “at risk”. For example, a salesperson with a \$60,000 base salary and \$100,000 On Target Earnings would have 40% of the total compensation at risk (\$40,000 commissions / \$100,000 total compensation).

You can see enormous variations in expectations between low, medium, and high performance companies. High performing organizations are getting well over \$100,000 in annual MRR and Cloud, which is 5X – 10X higher than the typical MSP / Solution Provider. How can this be? Closer analysis reveals these high-performing companies are more focused in their sales approach, more specialized in their offers, and they invest far more in marketing and lead nurturing. This means there is enormous room for growth and improvement in the average companies.

Account Executives

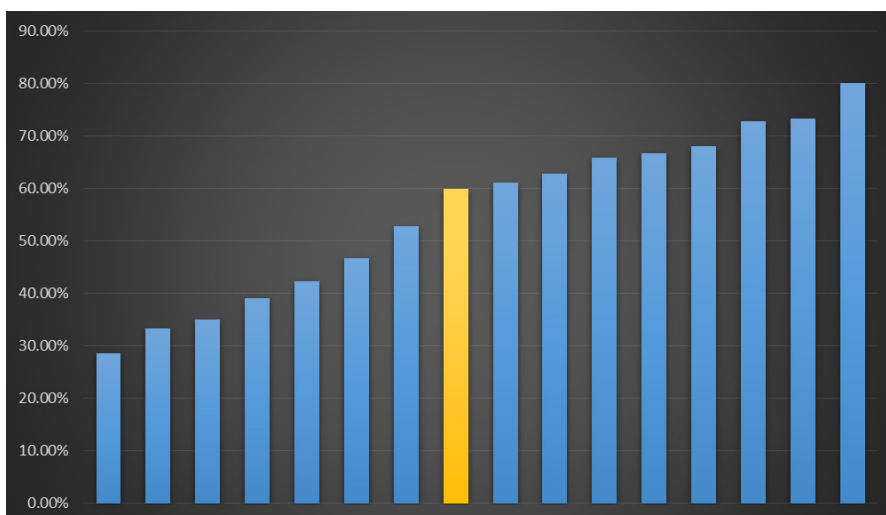
Average of 52%

Our survey found the Account Executives were nearly half variable, 52%. This means that roughly half their income came from salary, and the remainder from commissions, bonuses, and other variable compensation.



Senior Account Executives

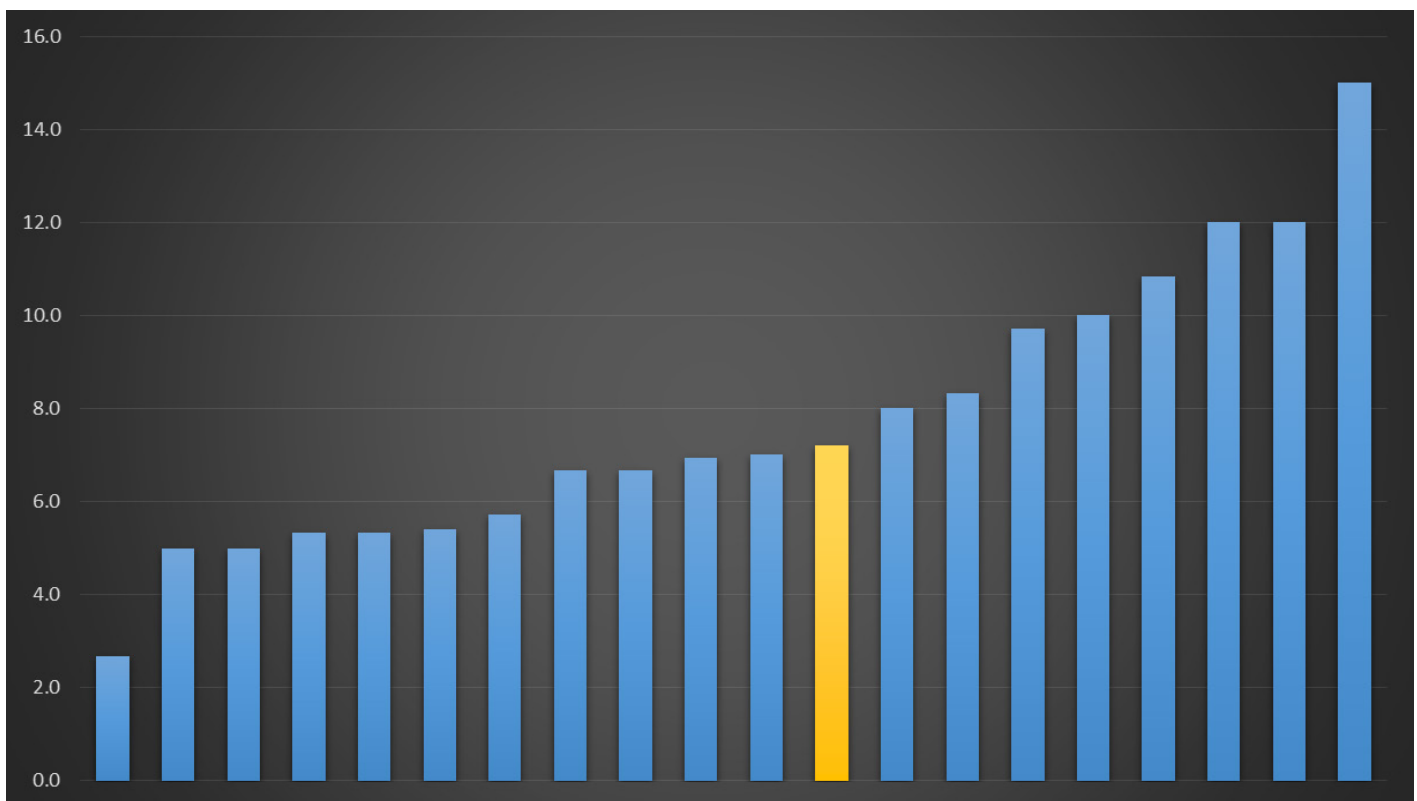
Average of 57%



Senior Account Executives had more variable compensation expectations, probably because they were expected to sell significantly more. Senior Account Executive comp was 43% salary / 57% commission and bonus.

GROSS PROFIT QUOTA AS A MULTIPLE OF BASE SALARY

Many MSPs & Solution Providers wonder how to set quotas. One useful metric is to set a Gross Profit quota as a multiple of the base salary. When a salesperson wants a higher salary, they would then be expected to carry a higher quota.



The old rule of thumb was quota was 10x salary. So a \$60,000 base salary would necessitate a \$600,000 GP quota. Most of our respondents came in lower than 10x. The average multiple in our survey was 7.2.

Since most MSPs have an MRR quota and not GP, we would like to calculate a multiple for that as well. Unfortunately, our sample size was too small to do this. Next time, we will make sure to solicit enough cloud and managed services quotas to create a quota as a multiple of MRR.

COMPENSATION NEXT STEPS

FOUR BEST PRACTICES FOR BUILDING YOUR SALES COMPENSATION PLANS

Whether you work for a Managed Service Provider, Unified Communications or Cloud Communications reseller, or Audio Visual System Integrator, the challenges of compensation in a changing landscape of products and services call for some thoughtful changes you can put in place next time you need to make tweaks.

Change Sales Compensation Plans Annually

It may be the most dreaded thing for both executives and sales reps, but if changes aren't happening to compensation plans annually, you could be setting yourself up for more problems. Adjusting compensation plans annually ensures the changes you make are incremental and not so major that you lose talent. If big changes are needed, we recommend attempting to make those graduated and incremental over the course of a year or several years.

Collaborate with Sales Reps on Compensation Changes

"People support a world they help create." Dale Carnegie

Get your top sales talent involved in the compensation conversation early. You could ask for their feedback after you have thought through the first round of changes. Even better, ask for input prior to your planning. Here are four questions to get their perspective and fresh ideas:

1. How can we win more accounts?
2. How can we sell a higher percentage of cloud accounts?
3. What are ways we can cross-sell and up-sell our customer base?
4. If we increase marketing and lead generation, how do we pay for it?

Engaging them in the discussion will lead to honest feedback, and some ideas to make your plan more effective and better received.

Communicate Compensation Changes Early and Often

The way a new commission plan is communicated is just as important as the plan itself. Nobody likes surprises, so incorporate these three approaches to educate your team on the adjustments they can expect for a less painful transition.

Lay a Foundation

Prior to rolling out changes, lay a foundation for change and engage key team members. Introduce the key decisions that need to be made, and challenge them to come up with ways to address those decisions. If they can understand the complexities of change, they may be more understanding of the decisions you make.

Schedule a Discussion

Schedule a town hall style meeting. Share the transformation the entire technology market is going through, how it will impact the company, as well as how it will impact each team member. Use this time to remind them how much you value and appreciate them and ask them to recommit to the next chapter in the company's history.

Discuss One-on-One

Schedule one-on-one meetings with each team member impacted. Give a safe and confidential space for your team to air their concerns, and press them to provide honest feedback. At this stage, it's important to get each team member to commit to the transition in practice as well as compensation.

Stagger Major Payouts

Make milestone payouts or rewards hit throughout the year. With a structure like this, your top people are always excited by the competition. For example, the annual bonus is paid in the winter after the end of the calendar year, the sales achiever trip is late spring or early summer and a commission accelerator kicks in during the fall. This also helps keep your best talent motivated to stay loyal to your company.

COMPENSATION CONSIDERATIONS FOR RECURRING REVENUE, CLOUD SALES, AND PRODUCT RESALE

The transformation we're seeing in the technology industry has changed the way products and services are sold. Recurring revenue and cloud sales have added a layer of complexity to comp plans that many haven't encountered before. These changes to Solution Providers' offerings are bringing challenges on how to ensure sales teams are selling the things that are best for both the clients and your business.

Most importantly, the longer you wait to adjust your sales team commissions from upfront to recurring, the longer and harder this transition will be for everyone.

Don't Prepay Recurring Revenue Sales Commissions

Resist prepayment of recurring commissions. Leaders and owners often take care of their team before themselves, sometimes even at the expense of the company's success. This is a dangerous time to fall into this pattern. The reality is that executives and their companies are going through the same transformation they are asking of their sales teams.

When you think about paying commissions for recurring revenue or cloud sales, it's critical to match commission payout to the inbound revenue you receive. If spiffs and other prepaid commissions are available from the Service Provider, manufacturer or distributor, consider passing some to your sales team. Just remember that these upfront commissions are subject to change; you should set the expectation with your teams what will happen if, and when, that occurs.

Build an Income Calculator for Sales Reps

It's difficult for both executives and sales reps to wrap their head around adjusting from upfront commissions to recurring. So, consider providing a tool that allows your sales team to model how the changes you are making, including those to recurring commissions, will impact their income potential. We suggest that you build a calculator with the following abilities:

- Compares 2018 compensation to 2019;
- Input for recurring commissions on a monthly basis; and
- Based on the recurring commission input, a model that shows how these commissions ramp over a 36 month period.

THE UNINTENDED BENEFIT OF RECURRING REVENUE SALES COMPENSATION

Paying your sales force recurring income is not only a commission lever, but a tool to retain your top talent. Yes, it will take time for recurring income to match the project income your sales team is used to getting in a traditional resale commission model. However, in 12 to 18 months your sales team will not only get more consistent income, it will also more difficult for them to leave your organization when they have guaranteed commission.

MAKING THE NECESSARY CHANGES TO SALES COMPENSATION PLANS TODAY

With sales compensation, perception is reality. By incorporating all these best practices, you'll have a better educated and understanding sales team when you have to make the necessary changes to sales compensation plans.