Sales Performance Management
Challenges in the High Tech Software Industry

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Executive Summary

Sales leaders in the high tech software industry face unique sales performance management (SPM) challenges, including managing through shifting strategies, aligning performance measures to the strategy, and defining sales roles.

Challenge One: Managing and Motivating Through Shifting Strategies

Traditionally, high tech software firms sold premise-based software, which was paid for in up-front license fees and annual maintenance fees. Over the last several years, however, these firms have shifted their strategy and now sell cloud-based software as a service (SaaS), which is paid for in annual subscription fees. Because of the shift in strategy from premise to cloud, sales organizations no longer have the big multi-year license sales, but now have a smoother subscription-based sale. This changes the nature of the sales process and how sales

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organizations measure and pay. This new revenue model can be good for the company: it increases predictability for revenue flows and decreases revenue spikes. However, it creates incentive challenges for the sales people: it spreads their income out over time, making it harder to motivate sales people. Organizations have had to design incentive plans that keep the sales organization engaged when they no longer have a big "pop" of revenue at the time of sale. Plan structures and commissions for annuity sales differ significantly from the old premise-based license plans because the revenue flows have shifted.

Solution: Changes in strategy must be followed by the appropriate changes in sales process, structure, and sales compensation. High tech software organizations have to re-think and completely redesign their approaches to market starting with sales roles, which have become more customized to the SaaS model, and sales compensation plans, which have pay mixes (the ratio of base salary to incentive pay) and performance measures that align to this new model as well.

Challenge Two: Aligning Performance Measures

This shift in strategy also impacts performance measures, which affect incentive compensation plans. The SaaS model necessitated the creation of new types of performance measures. Before, deals were measured on revenue or bookings. Under the SaaS model, measures are based on total contract value (TCV); annual contract value (ACV); or monthly recurring revenue (MRR). New measures raise challenges around designing incentive compensation plans.

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One new challenge is paying reps enough to keep them motivated, while minimizing the risk of what the company is paying. For example, if companies pay on TCV the company takes a risk because it pays the rep on the value of the contract, which may not be realized for two or three years or longer. Contract terms also factor into how the rep is paid. The easier it is to cancel the contract the more risk the sales organization incurs on paying TCV. So companies also look at ACV or MRR. Rather than paying reps up front on TCV or ACV, the plan might pay monthly recurring revenue over some period of time (i.e., 12-24 months). Cash is king, so some companies also pay premiums for cash up front.

Solution: With a host of new potential performance measures, the organization should start with understanding its own revenue model and the behaviors it's trying to drive. For example, total contract value (TCV) may over-value the out-years while annual contract value (ACV) may be too short term and not provide significant emphasis on contract terms. The organization should also consider the risk of paying too much for annuity streams (such as license renewals) versus new licenses; they must also consider which roles are right for each type of sale.

Challenge Three: Supporting the Strategy with the Right Sales Roles

Software has evolved from the gun-slinging new license hunter to a selection of roles that range from new license sellers to account managers to renewal specialists. These shifts have translated to shifts in pay plan structures moving from mostly hunter roles on commission plans to hunters and farmers measured on quota attainment. Quotas may also encompass not just new revenue but also current revenue retention, renewals, and associated professional services.

Solution: As roles have expanded, compensation solutions have expanded as well. Companies need to begin with the core functions of each role, how they align to the sales strategy, and the engagement model that defines how they work together. Organizations need to create distinctions between new licenses, license renewals, professional services, and what the strategic priorities are for each. For example, the organization should determine whether professional services are an enabler of license sales provided by both the firm and partners, or a profit center itself. By clarifying these strategies and associated roles, the company can enable them with the right SPM solutions.

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