Circle Community Q&A: AGI Input

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SDR Quota Relief for PTO and LOA

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Question:
What other enterprise SaaS companies are doing to 1) ensure SDRs aren't avoiding taking PTO for fear of carrying their quota across fewer days of the month and 2) ensure that they receive some sort of makeup when out for extended leaves, ie parental.

AGI Response:
- PTO: The right PTO solution for inside sellers and SDRs with short performance periods depends on the company's role philosophy, quota setting practices, performance period, metric type (sales results vs. activity metric like # of calls), measurement level (individual vs. team), job level (rep vs manager), and length of time off. Many companies do not adjust quotas for the following reasons:
  - They desire to treat their SDRs like "sellers" that need to manage their time across the year.
  - They incorporate expected available time (e.g., 200-220 days per year) when setting quotas.
  - They use quarterly performance periods (with monthly payouts) to accommodate SDR availability and performance swings.
- LOA: LOA practices vary however are becoming more employee friendly to attract and retain talent (like many employee benefits). Best solution for jobs on short performance periods is to close out the plan and start them on a new plan when they return. Companies should align practices between sales and non-sales jobs. If they provide 100% of base salary to non-sellers, then they may want to consider a partial guarantee of target incentive to non-sellers who have more pay at risk. If they provide 100% of base and bonus to non-sellers, then they should consider guaranteeing 100% of target incentive to their sellers.

Inside Sales Reps: Planned Time Off (PTO) Policies

- Inside Sales Reps on short performance periods face productivity challenges when they take time off for vacation, illness, and/or jury duty
- The right solution depends on role philosophy, quota setting practices, performance period, metric type (sales results vs. activity metric like # of calls), measurement level (individual vs. team), job level (rep vs manager), and length of time off

	Full Quota	Prorated Quota
Details	Provide full quota regardless of time off Provide full target incentive	Prorate quota based on % of available time; Usually includes a qualifier[1] Target incentive options include maintain TI, reduce TI, or reduce TI with guarantee (see chart to right)
When to Use	• Treat ISRs like "sellers" that need to manage their time across the year • Quotas incorporate expected availability (e.g., 200-220 days / year) • Longer performance periods (e.g., annual) • Sales result metrics (bookings) that can be attained with less time • Team & management measures	• Treat ISRs like "call center reps" completing a task • Quotas assume full time attendance (e.g., 29-31 days each month) • Shorter performance periods (e.g., weekly) • Activity metrics (# of calls) that depend on availability • Individual & Rep measures
Pros	+ Easy to administer	+ Aligns ability to achieve quota with amount of available selling time
Cons	× Limits ability to achieve quota when time off is higher than planned allotment	× More challenging to administer, especially if quotas vary by day

	Maintain Target Incentive	Reduce Target Incentive	Reduce Target Incentive / Provide Guarantee
Details	Maintain target incentive	Prorate target incentive based on % of available time	Prorate target incentive based on % of available time; guarantee target incentive while on PTO
Pros	+ Provides full target incentive opportunity	+ Aligns payout to amount of available selling time + Aligns costs to productivity	+ Provides full target incentive opportunity + Aligns performance-based payout to amount of available selling time
Cons	× Does not align payouts to amount of available selling time × Higher costs vs. productivity	× Does not provide full target incentive	× Higher costs vs. productivity

[1] Most companies set qualifiers to be eligible for a prorated quotas. Examples include:
- Must be absent for 2+ weeks or must be absent for 20%+ of month or quarter
- Must be absent for five consecutive days that can includes holidays and planned vacation (4 weeks max)
- All vacations must be approved 30 days in advance

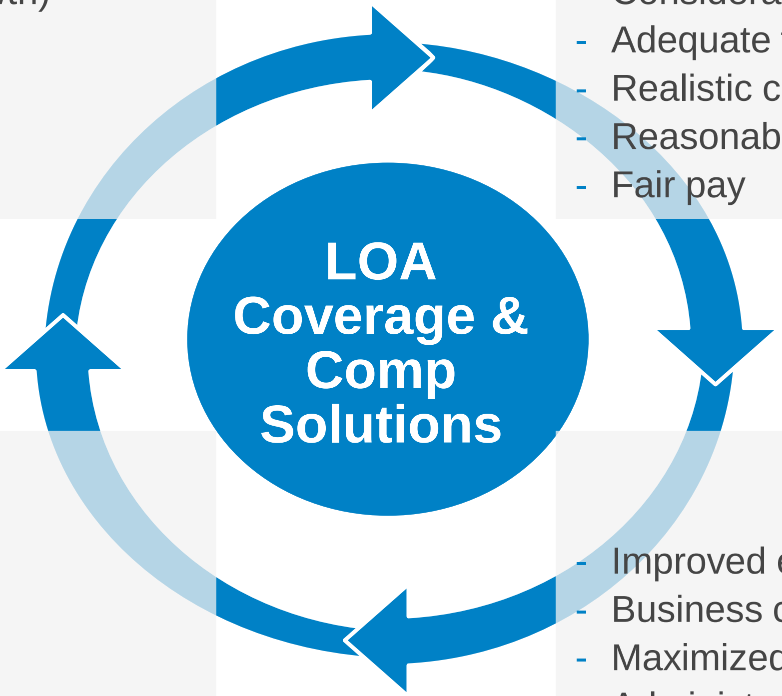
LOA Coverage & Compensation Solutions Spur Unique Needs Across Four Main Entities

REP TAKING LEAVE

- Accounts will be taken care of (retention & growth)
- Job and territory will be there return
- Reasonable ramp down/up period
- Fair pay

REP COVERING (IF USED)

- Consideration of bandwidth of current job scope
- Adequate training and enablement needs
- Realistic coverage targets
- Reasonable ramp up/down period
- Fair pay



CUSTOMER

- Relationship continuity
- Continued service of needs
- Transition ease

COMPANY

- Improved employee experience
- Business continuity
- Maximized retention and growth of accounts
- Administrative ease
- Cost effectiveness

Paid Leave of Absence Options

Guiding Principles

- Align to benefit policies and total reward philosophies
- Align sales and non-sales practices
- Pay for persuasion
- Be fair
- Simple

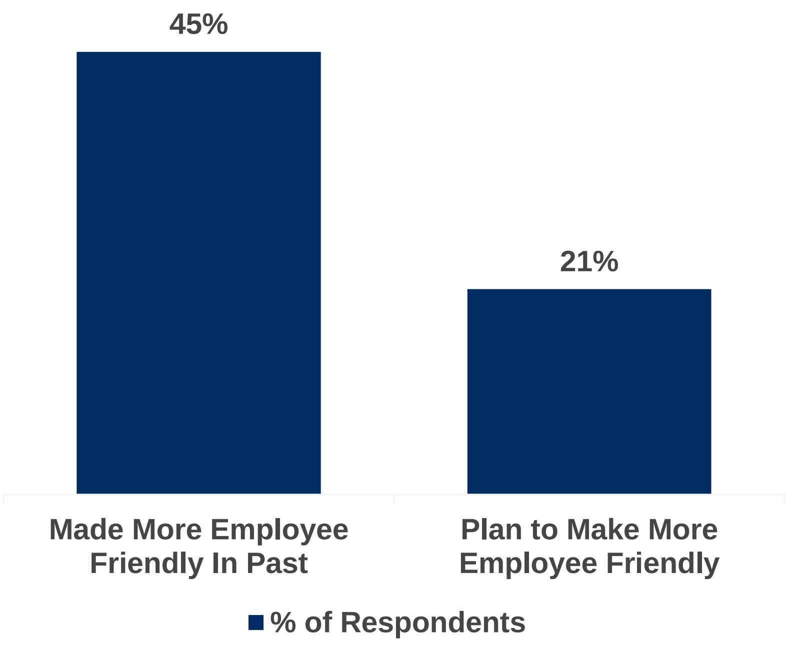
Considerations

- Insurance benefits. If it pays 100% of target incentive, then may not need any additional policies.
- Performance period / quota duration. If shorter or yearend, easier to close out plan and start new one upon return.
- Individual vs. team measures. Easier to keep on plan when being paid on team measure.
- Crediting rules impact final payment. If pay on invoice, consider final payment on bookings.
- Account Coverage. If another Rep covers accounts/territory while LOA Rep on leave, consider split credits.
- LOA Duration. If leave is short, use temporary coverage and provide credit. If leave is long, stop plan.
- Use of Quotas. No need to consider quota impacts if there is no quota.

	Close Out Plan (Start New Plan Upon Return)			Keep On Plan		
	No Incentive Pay	**Incentive for Funnel Deals**	**Guarantee Incentive**	**Incentive for Funnel Deals**	**Split / Partial Credit**	**100% Credit**
Details	"LOA Participant" is not eligible for incentive compensation while they are on LOA.	"LOA Participant" receives incentive compensation for sales within a set window of time after they go on LOA. Generally, require sales to be forecasted at a certain stage in CRM by the time they go on LOA.	"LOA Participant" is guaranteed their target incentive while on leave. Guarantee can by 100% of TI, less than 100% of TI or based on historical earnings.	"LOA Participant" receives incentive compensation for sales within a set window of time after they go on LOA. Generally, requires sales to be forecasted at a certain stage in CRM by the time they go on LOA.	"LOA Participant" splits credit with "Covering Participant" or receives partial credit while on leave.	"LOA Participant" receives 100% of incentive compensation for sales while they are on LOA.
Incentive Treatment Option(s)	Prorated Target Incentive Full Target Incentive	Prorated Target Incentive Full Target Incentive	Prorated Target Incentive	Full Target Incentive	Full Target Incentive	Full Target Incentive
Quota Treatment Option(s)	Prorated Quota Full Quota	Prorated Quota Full Quota	Prorated Quota	Prorated Quota Full Quota	Prorated Quota Full Quota	Full Quota

LOA Policies Becoming More Employee Friendly

66% of companies made or plan to make their LOA policy/practice more employee friendly



LOA practices for the primary seller vary widely depending on performance period, degree of pay at risk, and other factors

Maintain Current Sales Comp Plan

55%
of companies keep employees on LOA on the same plan with varying crediting rules / splits

Quota Modification

61%
of companies prorate or may prorate quotas for employees on LOA

Guarantee Incentive While on Leave

14%
of companies offer at least a partial guarantee while employees on LOA

Sources: Alexander Group 2023 Sales Compensation Hot Topics & Trends Survey

De-bookings and Clawback Practices

De-bookings and Clawback Practices

Question:
For those that have clawback provisions in their comp plans, I was curious about how you approach the following two questions:

- At what rate do you clawback the deal? A few options we've considered are a) clawing back the original commission paid on the deal or b) clawing back at the base commission rate.
- When you debook, do you net it against the rep's attainment in the period where the debook occurs? The period where the original deal happened? Something else?

As an example, let's say a rep closes a $100K new deal in Q4'22 and is initially paid commission at an accelerated rate of 15% (vs. 10% base rate), for a payout of $15K. The customer never pays and the deal is then debooked in Q2'23. Do you clawback $15K? $10K (i.e., $100K * base rate of 10%)? Does the $100K debook impact their Q2'23 attainment?

AGI Response:

- Clawbacks are one method to align incentives to revenue recognition and not pay for business that the company cannot recognize. Companies should select the best policy solution based on mechanic and administrative needs. Options to manage incentives for "bad" business include:
  - Select a measure / crediting policy that minimize any potential revenue recognition risks (and thus clawback situations) E.g., if too many de-bookings, credit on invoice or provide partial credit at booking and partial credit at invoice
  - Consider non-sales compensation solutions:
    - Revisit deal approval processes to ensure customer credit worthiness prior to quoting/closing a deal
    - Revisit customer targets / ideal customer profiles
  - Use a clawback policy; to minimize administrative burden, consider only applying to larger deals (e.g., 100k+); options include:
    - Recalculate original payment and subtract overpayment from next period's paycheck (easier to administer with commission rate or individual commission rate plans)
    - Apply negative credit amount to next period's quota credit calculation (can administer with all plans, however, may need to forgive debooking to "new" sellers that inherit an account that receive a negative credit due to territory change
    - One solution is to apply negative credits within FY and recalculate payments across FY
  - Don't use a clawback policy and recognize that you may pay for non-revenue

“Incentive Earned” and Clawbacks

Incentive Earned Definition

Most companies describe “incentives earned” in their policy document as the following: “A deal must be in CRM, adhere to pricing guidelines, have a signed PO, be deployed/accepted by customer, billed, paid, and the company was able to recognize revenue. However, the company will give an advance at time of booking, shipment, or billings.” This gives the company the capability to clawback credit or earnings if the customer doesn’t pay. This places the responsibility on finance/collections to collect payments and leverage the seller only if there are issues since it would result in a clawback. To use this practice, companies must publish real time outstanding collections reports to sellers to keep them abreast of issues and enable them to proactively reach out to customer when there is a collection issue as needed.

Note: Companies should only use cash collection crediting rules when there are collections issues AND sellers are responsible for collections. Some start-up companies make sellers responsible for collections, however they typically transfer the collection responsibility to finance/accounting and only use the seller as last resort.

Clawbacks and Managing Incentives for "Bad" Business

- Clawbacks are one method to align incentives to revenue recognition and not pay for business that the company cannot recognize
- Select the best clawback policy option based on mechanic and administrative needs

Options to Manage Incentives for "Bad" Business

- Select a measure / crediting policy that minimize any potential revenue recognition risks (and thus clawback situations)
  - E.g., if too many de-bookings, credit on invoice or provide partial credit at booking and partial credit at invoice
- Consider non-sales compensation solutions:
  - Revisit deal approval processes to ensure customer credit worthiness prior to quoting/closing a deal
  - Revisit customer targets / ideal customer profiles
- Use a clawback policy; to minimize administrative burden, consider only applying to larger deals (e.g., 100k+)
- Don't use a clawback policy and recognize that you may pay for non-revenue

	Clawback Policy
Details	Deduct performance and payment or just payment for a sale that does not convert to revenue for any of the following reasons: canceled booking, never implemented solution, and/or did not pay bill Consider only applying clawbacks for larger deals that pose more revenue recognition risk (80/20 rule)
Pros	+ Aligns incentives to revenue recognition
Cons	✕ Can incent sellers to leave if they believe that their future incentive payments are at risk ✕ Can penalize sellers for events outside of their control (e.g., bankruptcy) ✕ Challenging to manage

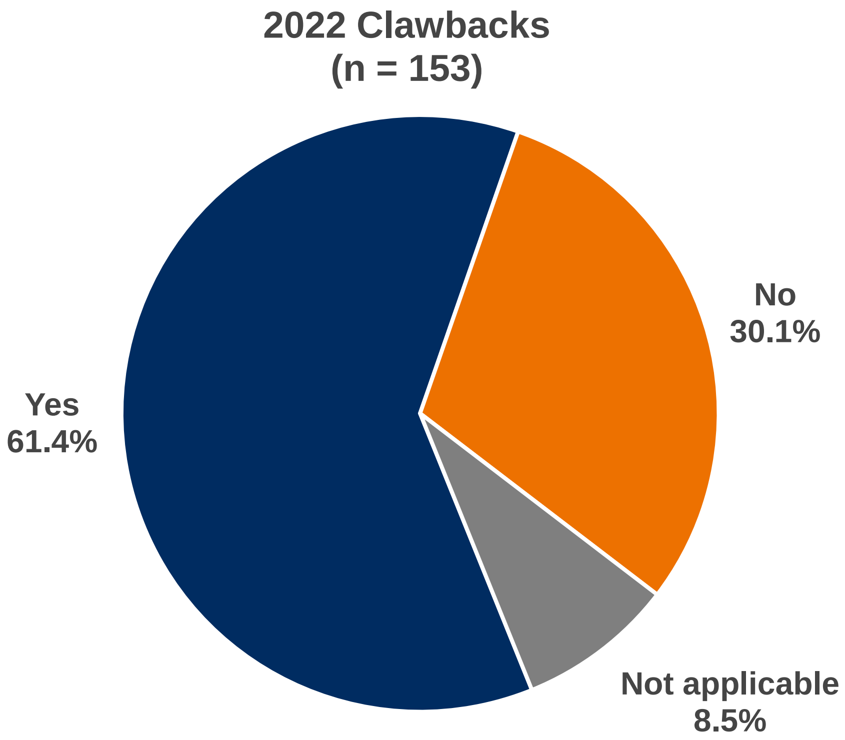
Clawback Policy Options

	Recalculate Payments	Apply Negative Credit
Details	Recalculate original payment and subtract overpayment from next period's paycheck	Apply negative credit amount to next period's quota credit calculation
Pros	+ Simple practice for commission rate plans – apply commission rate to deal to determine clawback amount	+ Easy to communicate and administer with all mechanic types (bonus formula, individual commission rates, commission rates)
Cons	✕ Complex to re-calculate historical deal payouts, particularly when use individual commission rates (mitigation: use base ICR) ✕ Difficult to communicate, particularly when use a bonus formula mechanic (mitigation: use calculated ICRs with bonus formula plans) ✕ Must keep track of previous plan period rates when clawbacks occur in next plan period (mitigation: consider a standard rate)	✕ Sellers may receive a large negative credit that they have to overcome within a period (mitigation: its part of job) ✕ Difficult to administer when a seller inherits an account that receives a negative credit due to territory changes (mitigation: don't apply negative credits to "new" sellers)

Note: One solution is to apply negative credits within FY and recalculate payments across FY

Clawback Market Practices

61% have a clawback provision. Less than one-third of the companies do not have a clawback provision.



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