Best Practices in Ad Sales Commission Plans

Part 1
Direct Sales

boostr

Table of Contents

Introduction

In this whitepaper we'll discuss best practices in Ad Sales Commission Plan design. These learnings come from firsthand experience designing plans for one of the largest global digital publishers as well as hearing what's working vs. not across our media clients at boostr. These best practices are meant to be a guide of what we have seen work, yet you should always determine what's most appropriate for your business. When in doubt, seek help from experts such as The Alexander Group for your specific design and modeling needs.

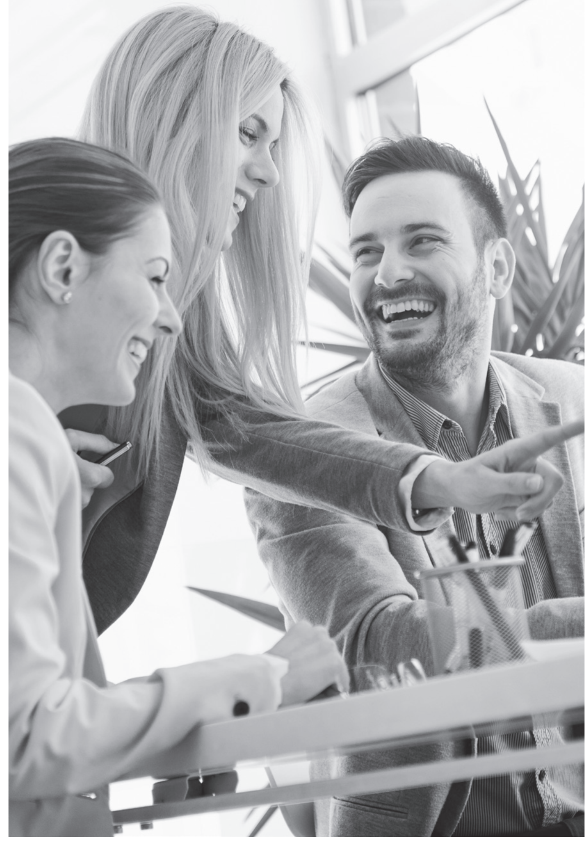
Chapter 1
Simplicity is Key

The golden rule is keeping the commission plan simple. Too often management wants to solve every problem with the comp plan resulting in something that has the opposite effect. To resist the complexity temptation, write down one to two strategic priorities for the revenue team and use those to drive your commission plan design. Convert these into one or two components that make it very clear to the revenue team what behavior is rewarded and how it's simply calculated. When implementing more than one component, a best practice is a minimum weighting of at least 20% of the plan member's target incentive. Anything less and the revenue payout just doesn't get their attention and they'll focus on the component that's 80%+ of their target incentive. Keep it simple, two components or less.

Chapter 2
Is a Dollar a Dollar?

You know if you know what this means. If a dollar is not a dollar, your customers surely know because it will incent your sales team to push certain products. You've probably been on the receiving end of vendors where you have a long-standing relationship and every quarter they're pushing some new product – that behavior generally comes from the latest commission plan. And you probably have a bad recall of those sellers pushing irrelevant products. When you incent certain products over other products you're creating misalignment with the best solution for the brand or agency. From personal experience, we've seen the repercussions – sellers are frustrated they don't make commissions on certain products because their buyers don't want them, they're not making enough on the other products because the weighting in the comp plan, management doesn't understand why extra money didn't drive those product numbers and the buyers know. Again, simple is best, make a dollar equal across all products. This incents the sales team to pitch the best solution for the buyer which has longer term customer satisfaction and lifetime value. If you really need to provide some extra focus on specific products, we'll discuss other ways later in this eBook. After seeing this over many years, great sellers focus on maximizing selling what's best for their clients – they know that pushing the wrong products hurts them over time. Don't make your commission plan compensate for having the wrong products or shifting internal priorities, your buyers will notice.

Chapter 3
Paying on Programmatic



This is a fun conversation at most media companies. Since we're focused on the direct sales team, and not a programmatic specialist/ops/overlay team, let's break this into two parts:

1 Should you pay for the Open Exchange revenue?

The story from sellers usually goes like this, "well my brand is moving spend from IOs to the open exchange because the CPM's are lower and they can buy audiences across the open web with their DSP so I should get compensated." The litmus test to determine if they should is, does the seller have any persuasion in getting that brand to buy your inventory on the open exchange? Probably not – the buyer's DSP software choses what's bought where and at what price.

This issue typically arises in media companies where there's a transition of spend from direct to indirect channels which hasn't stabilized further impacted by difficulty in setting quotas for the direct seller. It's assumed in their quota that this spend will come in directly (IO, PG, PMP) and when it doesn't the seller's commissions are affected. It also shows up for sellers who, for whatever reason, aren't getting good input from their clients to build joint account plans. They think it'll come in directly, then doesn't, getting frustrated. Paying sellers for open exchange revenue for their assigned brands is like giving your kid a quarter to play the video game at the pizza parlor that isn't plugged in. Nothing happens.

2 Should you pay on gross or net for Programmatic Guaranteed and PMPs?

This is another fun and tricky one. Media companies typically have a 4-10% tax levied by their ad server or SSP for executing these buys. So paying on the programmatic net amount to the company vs the gross amount is a big consideration. We get the motivation to only pay on what the company collects and it's often probably the right thing to do. Just be clear with the sales team up front how you'll pay on this revenue stream so there's no surprises. One gotcha is to have a CRM & OMS that supports "net" forecasting and both gross and net revenue reporting. It's a best practice to know what the brand and agency actually spends – the gross amount – so when analyzing opportunity, discussing historical spend or spend agreements, everyone is talking about the same gross numbers. If you don't, sales will track the pipeline in a net amount skewing your client facing revenue reporting. It's also critical to ingest programmatic data in both gross and net amounts so you solve both problems – pay on net, see and report on gross or net depending on the purpose. Paying on gross is simple but may not be right for your margins and cost of revenue.

Chapter 4
Timeframes

Many media companies use either quarterly or annual commission plans, some even do half year. There's no right answer but there are tradeoffs. We've tried both and with mature, predictable businesses, the yearly approach has some advantages. If that's not the case, shorter term is often a better choice. Below are some of the tradeoffs to consider:

Quarterly

This approach is great for several reasons. It's easy to capture seasonality in your business and with the ad spend, if you got the quotas wrong you get to reset them four times a year, if brands pick up or slow down spend you can react and not overcompensate or penalize a seller, it makes it easy to reassign accounts, address new hires and attrition. On the downside, you really need to be good at setting quotas because by the time you get them setup and rolled out you're doing it again for the next quarter. The other problem that often manifests, which sellers can influence, is lack of future quarter bookings. The best way to measure this is what % of your next quarter quota attainment do you start the quarter with? If you're consistently 50% booked on day 1 and you need to find the other 50% in 90 days and you have the typical 45-day cycle time, your quarter is over half way thru. Plus, strategic money for tent poles, anchors and other seasonal events is planned months or quarters in advance. If the seller doesn't know their quota for those future time periods, they're not as motivated due to fear of higher quotas if they're booking in advance. We're not saying all sellers behave this way, but it happens. If you're consistently not making your quota on the direct business, you probably aren't starting the quarter with enough pre-bookings. Analyze the sellers who consistently make their numbers, they probably have a higher pre-booking amount or week 1-2 of the quarter show up with their bookings for the quarter. The latter is a sales commission design issue.

Semi-Annual

Six-month commission periods are a nice middle ground between quarterly and yearly. It mitigates some of the pros and cons of the quarterly commission plans. You'll get more future bookings, less chances to get quotas wrong and probably get them out sooner. If things go wrong with certain advertisers like they turn off their spend you can always revise the quota or better yet, don't change it and give them quota relief at the end of the half. A best practice we like is a six-month commission period with a six month goal/quota augmented by a first quarter hurdle. The hurdle is like a goal for the first quarter where an example could be – if you hit half your semi-annual goal in the first 90 days you get half your target incentive for the half. You then true up at the end of the half based on the final performance and if they don't clear the hurdle they don't get paid until their final performance for the half is complete. This also has the benefit of creating a retention tool for six months.

Annual

This really works well to minimize the impact of difficulty setting goals/quotas and has benefit of getting sellers in synch with the buyers when they want to buy or even motivate buying the most valuable inventory early. It reinforces a strategic relationship with your advertisers to focus on maximizing year over year growth vs short term behavior. Like semi-annual we've seen media companies use hurdles at the half or even quarter. In any case you'll want to provide at least quarterly commission payments based on actual revenue progression vs only paying commissions annually. It's important and not difficult to get this right.

Chapter 5
Pay Mixes

A pay mix is the percent of a seller's target total compensation that's base vs. variable. A 50/50 pay mix means half their target compensation is their base salary and half is in variable commissions. The best practice is to align the pay mix percentage with their level of persuasion in the sales process. Generally direct sellers should be 50/50. Supporting roles typically have higher pay mix on their base salary. Sales management may need to be 50/50 but often as you go up from front line managers to the CRO, the pay mix shifts more to the base. As you move higher up the org chart, they typically have less involvement and persuasion in the sales process and are focused on other strategic activities often receiving greater equity compensation.

Chapter 6
Handling New Products

You're rolling out a new product with big revenue expectations so giving the sales team a goal seems obvious. Until it's difficult. How do you know which accounts will buy it and when? Can you really set a reasonable goal for every seller, get the rates right so you don't under or over pay? Probably not. The best practice is to set a flat commission rate or pay a bonus every time it's sold. This gives the seller an incentive, promotes trust that the company needs to get real data to accurately target and pay and doesn't result in massively overcompensating if the product takes off. You can do this for whatever time period to get the market feedback then factor it back into their overall quota in the next commission period.

Chapter 7 Solving for Special Focus

In chapter 2 we discussed the pitfalls of giving out one or more product quotas. In reality, sometimes you need to provide a little extra emphasis to drive specific behaviors. One technique that's worked well over the years is a kicker or bonus. Say you have a specific product that needs more attention or that's a great cross/up-sell but you're not getting traction. Put a kicker like, "for every one of these sold you get $x or $y%." This works well to change behavior. It's best to think of kickers as temporary for some period to grease the wheels. Seller's notice and will pay attention. Don't do more than 2-3 at any time or you comp plan becomes like bingo and pretty soon you're double paying for the same revenue, and you dilute the focus.

We've used and seen MBOs (management by objective) and are not fans. They're usually too difficult to measure, often qualitative resulting in everyone getting paid 100% without the results to show for them – our advice, stay away. Keep it simple, 1-2 components like overall revenue plus a margin target and maybe 1-2 kickers. That's it.

Chapter 8
Popular Incentive Structures

Here's a few final thoughts on things to consider in your commission plan design:

Capped Plans

We're not a fan of plans that "cap" or limit commission payouts at a certain level of production. Once you communicate that to sellers, even though probably unlikely it would happen, that's all they remember. And it hurts when recruiting great talent. Better is to put in decelerators above some level of performance so they continue to get paid for over delivering.

Commission Rate vs. Target Incentive

Both methods of designing commission plans are becoming more common and they're related. The Target Incentive method has been popularized by The Alexander Group across many industries. Behind the scenes it results in individualized commission rates and gives you precision in helping sellers have line of sight to their total target compensation. Purely commission rate plans are great too – they're easy to understand, if they don't have too many tiers or extra criteria.

Floors and Decelerators

Often, you want to incent a minimum level of acceptable performance. Using a floor or decelerator is a great way to communicate that in your plan. We typically see a floor around 50-60% of quota meaning if the payee doesn't achieve that much in the commission period, they get no commission payouts. Sometimes a decelerator helps where you have one or more rates below 100% goal achievement to motivate higher levels of performance under and near goal. A floor and a decelerator can make a nice combination too. A floor can also incent underperformers to leave on their own. If you use one and something unforeseen happens to a great seller and they totally whiff, be ready to give them quota relief so they don't walk out the door.

Fewer Plans is Better

Come up with a way to minimize the number of plans you need. Too many plans creates extra expense and complexity. There's tricks like having commission rates tied to quota sizes within a single plan eliminating the need for small, medium and large comp plans.

Conclusion

Designing the right ad sales sales commission plan will have a positive impact on your business. The converse is true – it's hard to recruit and retain talent. Even with the best commission plan, it's about getting the quota right. Bad quota setting causes more morale and performance issues than a poorly designed commission plan. So get both right. To learn more how to apply these concepts and automate your ad sales commissions plan for maximum benefit contact us at

www.boostr.com/commissions