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SE Compensation: A Dozen Thoughts

You Eat What You Kill

Compensation Drives Behavior. If only companies could put just half the effort into creating a pre-sales engineering compensation plan that they put into the sales plan they would have a far more motivated team of SEs.

Here are some best practices, insider tips and lessons learnt over the past twenty years through my experiences of designing, implementing and then defending Pre-Sales Engineering compensation plans. Even if you are an individual contributor at some massive software or hardware company it is still worthwhile to understand the behavior your plan is trying to incent, and if you are aligned with the expected behavior of the salesforce.

1. Explain The Job. Someone, somewhere inside Finance, Human Relations and possibly Sales Operations has to help design, structure and then approve the SE Plan. It really, really, helps if they actually understand what an SE does and why it is so important to corporate success. Everyone knows that salespeople sell, but Sales Engineers do what? Emphasize the unique blend of business, sales and applied technology the position requires – promote the SE Brand!

2. Quota or Not. My feeling is that any SE who is NOT paid on sales achievement is not really an SE at all (i.e. you are paid on some corporate incentive bonus plan.) Given that fact, the two starting assumptions are (a) pay on the smallest number possible and (b) pay on a number that someone in sales cares about. Pay on the smallest number because that gives the SE population a measure of control ("you eat what you kill") in that deals which they close can make a material difference in overall achievement and size of paycheck. Pay on a sales number because of behavioral alignment. If you are an SE paid on sales of a single product within a

larger solution set, yet no-one in sales has a corresponding quota – then good luck, you will need it as there is no-one fighting in your corner for you.

3. Insider Knowledge. It may come as a surprise to some readers that most plans are designed to pay-out on the assumption that the average individual sales performance is 80%. Also - when quota rolls up the organization there is some buffer built in (known as over-assignment) for each level of management. So that the district quota may only be the sum of, say, 95% of individual reps quotas. Regional quota is the sum of 95% of district quota etc. Ideally the SE should be paid on the management numbers rather than the individual numbers, or even given an adjusted number based upon headcount (i.e. if your quota is based on eight salespeople in the district, but there are only six and the District Manager gets an adjustment – then so should the SE population.)

4. Leverage. Most individual contributor and first-line manager plans today average around 75%/25% fixed/variable compensation, where fixed = base salary. Low-end is at 80/20, and a few plans go up to 60/40. High-leverage plans are usually offered by smaller start-ups to minimize their fixed costs, or by larger companies in tough economies seeking to save money at the expense of the employee. High-leverage plans bring happiness in the good times, and sadness during the bad economic times. On an achievable quota I'd suggest that 70/30 or 75/25 is the place to be at On-Target Earnings (OTE).

5. Align Behaviors. What is the behavior you wish to drive? Pull out your current plan and think about it. If you are paid on a single district/area/region/small country number than the message is clear – or is it? Does that number include services, training and annual support? Do you receive uplift for partner-led deals, specific bundles, small telesales deals (if you have them) or even for international sales? Now examine a salesreps plan to see if you are paid on the same items as the rep or her manager. If not, there is a behavioral mismatch and conflict can occur – and usually will.

6. The Finish Line. Humans like completion and finality. When you give someone a quota it is like running a marathon, you should get a reward for actually finishing

and hitting the number. Instead most SE plans kick you up to a (welcome) multiplier and you get the equivalent of a pat on the back and are told you will be paid more for the next deal which closes. It is amazing the psychological impact that even a small quota bonus will have on the SE population. Say 500, then 1,000, then 2,000 and then 4,000 – all contingent on hitting the previous quarter number. If you miss, you reset to 500. The bonus does not count towards OTE; otherwise, it would not be a bonus.

7. Stock=Dreams. Let's face it, very few SE's get rich unless it is through stock, stock options and some fortuitous Merger & Acquisitions activity. Everyone should have a dream, at least at small to medium sized companies or pre-IPO companies. Ensuring that employees have a piece of the company and an interest in its success beyond their immediate paycheck is crucial. However, stock is an incentive and a reward for performance – and not something to be evenly distributed across a team like buttering a piece of bread. (See Point #9 on Differentiation)

8. Share The SPIFS. I am stunned by the number of times I have seen sales SPIFS (Sales Performance Incentive Fund) announced with great fanfare and the SE's receive nothing. This is a fabulous way NOT to reinforce all those team selling principles covered in every sales methodology. Should presales get an exact match for what sales are offered? Of course not. However, there should be some carrot offered. For example if a rep is offered E10k SPIF for a large deal, competitive replacement, linearity and so on, then put E2k into a pool for the SEs. One software company announced such a SPIF in calendar Q2 this year and the SEs worked even crazier hours than usual to get a piece of the SPIF money. A US-based company announced a similar program in April, neglected the SEs and as a result spent a lot of money to get a negligible increase in revenue as they paid out on deals that would have happened anyway.

9. Differentiation. Sales is a performance-driven culture and so is Pre-Sales Engineering. For example, if seven SE's are paid on a district number, or twenty are paid on a regional number – some of those SEs will consistent contribute more than others. Not just on the deals, but also in other areas like mentoring and building infrastructure. The reward for such behavior needs to be more than an extra 1%

pay raise or 100 shares of stock. Set aside money to reward the top 20%, and only the top 20%, of performers each quarter. Remember that the shorter the time between action and reward the stronger and more psychologically valuable the reward is. Also publicize the top performers, both within the presales community and also within sales and product development/marketing. The corollary is to regularly weed out the bottom 10-15%; or else the effort directed towards the top 20% is diffused as the message is that mediocrity is tolerated.

10. Buckets. The overall variable compensation is frequently broken down into two or more components, known in the trade as buckets. A popular division is 2/3 of variable is paid on the local number, and 1/3 on the national number – to ensure that you share your toys and co-operate with your SE peers. Too many buckets, or having one bucket much smaller than others can be counterproductive. For an SE I usually recommend no more than two buckets, and possibly three for SE management – with the third being expenses or Profit/Loss if the budget reaches that far down.

11. The Upside. Every plan needs an attractive upside – meaning what happens when you exceed your target. Classic SE plan design offers what are known as multipliers – meaning that between 100 and 125% you receive 1.5x normal commission, between 125% and 150% you receive 2x normal commission and so on. Once you have been an SE and tasted the effects of multipliers, you will always hunger for more – as it is 'extra money'. Paying out on multipliers is a good problem for a company to have as it means that business is booming. In general, the larger the area you are paid on, the narrower the multiplier bands become. For example if you are paid on a large US, European, Asia Pac or even World-wide number, your multiplier bands may be at 100, 105, 110, 115%.

12. MBOs. MBOs (Management By Objectives) are usually a set of tasks each individual is given to accomplish within a set time period. An MBO may be personally driven in terms of training, team-based in terms of building infrastructure (demo/RFP/competitive info) or can be a special project. There seems to be no middle ground with MBOs – most large sales and finance-dominated companies hate them as they are viewed as "money for nothing", while smaller and nimbler

companies recognize them as an effective way to get things done for the benefit of everyone. Very few Sales Engineering executives object to properly executed MBO programs, most Sales executives are violently opposed to them. Even large companies need more pre-sales ready messaging and infrastructure which can readily be driven by MBOs at a limited expense.

Summary

The perfect SE plan has yet to be created. I have seen plans with caps that limit earnings, plans that pay nothing until you achieve a 50% floor, plans which offer wild 4-6x multipliers once quota is achieved and plans that truly reward individualism at the expense of the team. In general, as you would expect, the larger the company, the less leeway there is to change the plan. The smaller the company, the more opportunity for both change and the larger paycheck, but more opportunity for risks too.

If you'd like some help in reviewing or designing an SE plan – contact me at john@masteringtechnicalsales.com.

"Money is the root of all evil; and a man needs good solid, deep roots."

Fortune Cookie

Talking Points is a monthly column authored by John Care, Managing Director of Mastering Technical Sales. For more information on this and other Sales Engineering topics visit the website at www.masteringtechnicalsales.com.

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