A Guide to Choosing the Right Sales Comp Plan For Your First Enterprise Reps

STAGE 2 CAPITAL

MBO Based on Leading Indicators

Management by Objectives (MBO) sets targets for early-stage sales activities, such as contacts, meetings, and opportunities, rewarding reps with bonuses for achieving these predefined goals.

- **Predictability**: Encourages a steady pipeline of activity, which can lead to more consistent results over time.
- **Focus**: Keeps reps engaged with activities that drive future sales to build the right behaviors for managing enterprise deals.
- **Motivation**: Helps less experienced reps stay motivated by recognizing and rewarding their efforts early in the process

- **Measurement Complexity:** Tracking and quantifying these activities accurately can be challenging. You have to make sure you have clear definitions and inspection of the pipeline to avoid “gaming” the system.
- **Disconnect from Revenue:** Reps might focus on activities rather than closing deals, potentially leading to less aggressive closing efforts. They might also focus on efforts that don't actually lead to revenue.
- **Short-Term Focus:** May not always align perfectly with long-term revenue goals if not carefully managed.

Best For:

- Reps who are newer or less experienced.
- Early-stage companies looking to build and stabilize their sales pipeline.
- Organizations with detailed-oriented leadership who carefully inspect pipeline stages.

Higher Base Salary Lower Commission Perecentage

Increasing base salary to a larger part of OTE (50:50 to a 70:30 or 80:20 base). Standard SaaS pay mix is a 50:50 between base salary and variable.

- **Security:** Offers reps more financial security, which can help attract and retain talent.
- **Simplification:** Simplifies the compensation structure, making it easier to manage and understand.
- **Focus on Quality:** Encourages reps to focus on high-quality deals rather than volume, aligning well with high-value enterprise sales.

- **Lower Upside:** May reduce the overall earning potential, which could demotivate high performers.
- **Budget Constraints:** Higher fixed costs for the company, which can be challenging for early-stage startups.
- **Less Aggressive Sales:** Reps might be less aggressive in pursuing deals since the high commission incentive is reduced.

Best For:

- Experienced reps who value stability and are aligned with the company’s long-term mission.
- Companies that want to reduce the risk of large commission payouts.
- Organizations that prefer a straightforward and predictable compensation model.

Draw or Guaranteed Comp with a True-Up

Pays a portion of expected commissions upfront with a "true-up" based on actual performance, where reps only earn commissions beyond the guaranteed amount. (our fav)

- **Stability**: Provides financial stability to reps, reducing stress and turnover.
- **Alignment**: Balances short-term financial needs with long-term sales goals.
- **Retention**: Helps retain senior, experienced reps who are confident in closing large deals but need assurance of income stability in the near team.

- **Cash Flow Impact:** Can strain the company’s cash flow, especially if deals take longer to close.
- **Complexity:** Requires careful management to ensure accurate true-ups and prevent overpayment or disputes.
- **Potential Complacency:** If not monitored, reps might feel less urgency to close deals and drive tight timelines.

Best For:

- Senior, trustworthy, and proven AEs.
- Companies with sufficient cash reserves to manage upfront payments.
- Organizations that can handle the administrative burden of tracking draws and true-ups accurately.