



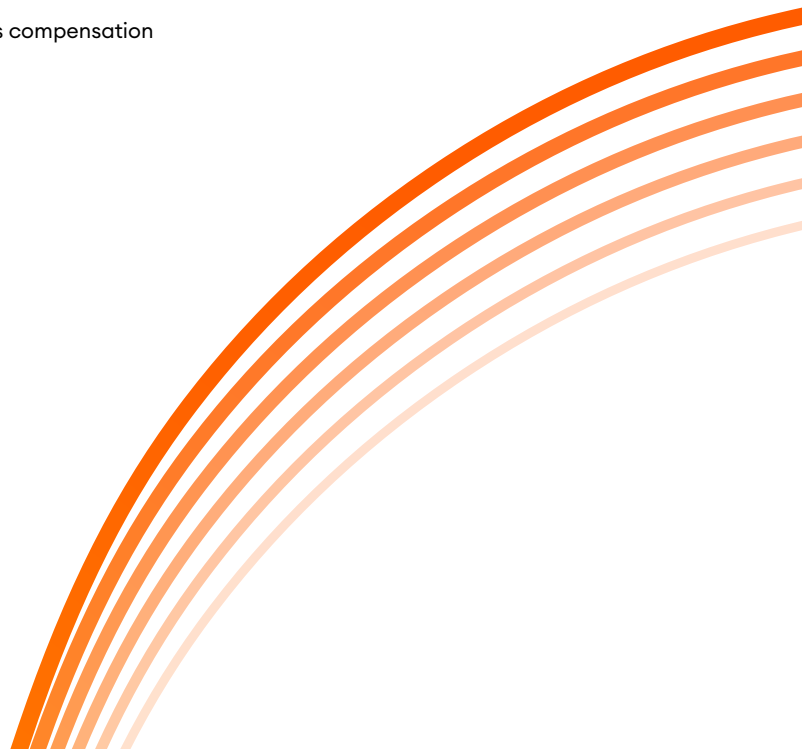
The Ultimate Guide to

Modern Sales Compensation Plans



Table of Contents

Chapter 01:	03
Introduction to sales compensation plans	
Chapter 02:	05
Choosing the right type of sales compensation plan	
Chapter 03:	09
Designing an effective compensation plan	
Chapter 04:	11
Setting quotas and performance targets	
Chapter 05:	13
Incentivizing long-term success	
Chapter 06:	15
Leveraging sales compensation technology	
Chapter 07:	17
Taking the next step towards modernized sales compensation	



Introduction to sales compensation plans

Chapter 01



A new product launch brings with it significant opportunity and initial enthusiasm from the sales team. However, sustaining that momentum over time requires more than just a strong offering. While multiple variables can influence your team's performance, a well-structured sales compensation plan is often a key driver of long-term success. When thoughtfully designed, it not only aligns incentives with business objectives but also promotes sustained engagement, accountability, and results.

The role of sales compensation in business success

A well-crafted sales compensation plan is the backbone of business success. It's not just about paying your employees; it is a strategic tool that can streamline processes, energize sales teams, and propel growth. When aligned with your company goals, compensation plans can cultivate behaviors that lead to sustainable growth and long-term success.

Effective plans not only draw top talent but also keep them by offering clear incentives and opportunities for career advancement. They signal what matters most to a company and steer the salesforce to act accordingly.

Case Study

Leading healthcare company Optum automated its complex compensation processes leveraging sales and performance solution, Varicent, reducing manual work and errors. This saved two days of work per plan and led to a 35% cost reduction per participant. The streamlined system improved accuracy, efficiency, and decision-making across teams.

Why traditional compensation plans no longer work

The sales landscape has undergone a seismic shift driven by digital transformation, empowered buyers, and intensified competition. Yet many organizations still rely on outdated compensation structures—such as commission-only or base-plus-bonus models— that no longer align with today’s dynamic selling environment.

Traditional plans focus heavily on short-term gains, often rewarding individual wins at the expense of team collaboration, customer retention, and sustainable growth. This narrow approach can demotivate today’s sales professionals, who increasingly value long-term relationships, career development, and meaningful contribution over pure transactional selling.

What exacerbates this issue is the continued dependence on spreadsheets and static tools to manage incentive programs. These manual processes are error-prone, limit transparency, and make it nearly impossible to adapt compensation strategies in real-time. When sellers lack trust in the system—or cannot understand how their efforts translate to rewards— motivation and performance suffer.

Key Insight

Sales Performance Management (SPM) platforms offer a more agile, strategic alternative. By automating incentive calculations, providing real-time visibility, and aligning compensation with broader business goals, SPM shifts compensation from a back-office function to a key driver of sales effectiveness and growth.

Choosing the right type of sales compensation plan

Chapter 02



Sales compensation is a strategic lever that directly influences your employees' behavior, motivation, and business outcomes. It must be tailored to your company's objectives, sales process, and employee roles. This section outlines the core types of sales compensation plans, their advantages and disadvantages and how they are best used.

Fixed vs. Variable Compensation

Fixed Compensation

Fixed compensation refers to a guaranteed salary or base pay that an employee receives regardless of performance outcomes. It provides financial predictability and is commonly used to attract and retain sales talent, especially in roles requiring longer sales cycles, intensive relationship-building, or a significant onboarding curve.

Best used for:

- New hires during their ramp-up period
- Consultative or enterprise sales environments with extended and complex sales cycles
- Prioritizing building customer relationships and delivering long-term value over immediate sales

Benefits:

- Reduces financial stress for employees
- Encourages long-term relationship building and consultative selling
- Simplifies administrative management and forecasting

Challenges:

- Can reduce urgency or motivation to exceed targets
- Does not directly reward high performance
- May not appeal to highly competitive sales professionals

Variable Compensation

Variable compensation is performance-based and tied to sales outcomes. This includes commissions, bonuses, incentive payouts, or profit-sharing mechanisms. It is designed to align employee motivation with company revenue goals.

Best used for:

- Roles directly responsible for generating sales revenue
- Fast-paced industries with shorter sales cycles
- Rapid growth environments, market expansion, or competitive activity

Benefits

- Directly incentivizes performance
- Helps control compensation costs as payouts are tied to revenue generation
- Can attract top performers who thrive in outcome-driven environments

Challenges:

- Income unpredictability may deter some candidates
- May lead to short-term thinking or aggressive tactics
- Requires clear targets, effective tracking systems, and transparent policies

Comparison: Fixed vs. variable compensation

Criteria	Fixed compensation	Variable compensation
Income predictability	High	Low to moderate
Motivation mechanism	Job security, stability	Financial reward for achievement
Administrative requirements	Simple	Complex, requires real-time tracking and reporting
Talent appeal	Security-oriented professionals	Performance-driven professionals
Financial risk (Employer)	High (pays regardless of output)	Low (payout only on performance)

Commission-Based Structures

Straight commission

This plan provides no base salary. Sales representatives earn income solely from commissions based on their sales performance.

Best used for:

- High-ticket or high-margin product sales
- Freelance or contract-based sales roles
- Highly-experienced sales professionals confident in self-management

Benefits:

- Strong motivation for results
- Clear link between effort and reward
- No fixed salary liability for the employer

Challenges:

- May deter new or less experienced salespeople
- Promotes short-term tactics over long-term relationship building
- Can negatively impact retention due to income inconsistency

Revenue-based commission

Sales representatives earn a percentage of total revenue from sales, regardless of profitability.

Best used for:

- High-growth startups
- Products with high volume and consistent pricing
- Sales teams focused on expanding market share

Benefits:

- Easy to track and administer
- Encourages sales volume and customer acquisition
- Aligns with top-line growth targets

Challenges:

- Reps may close deals with heavy discounts to boost volume.
- Does not account for profit margins.
- Can misalign sales goals with financial sustainability.

Profit-based commission

Commissions are calculated as a percentage of the profit generated from each sale.

Best used for:

- Companies with tight profit margins
- Businesses emphasizing sustainable, high-value sales
- Reps with experience in solution or value-based selling

Benefits:

- Aligns sales incentives with company profitability
- Discourages unprofitable deals and discounting
- Encourages reps to understand pricing, margin, and cost dynamics

Challenges:

- More complex to calculate and communicate
- Can cause confusion or dissatisfaction if reps lack visibility into cost structures
- Requires robust reporting and profit-tracking systems

Bonus plans and hybrid compensation models

Bonuses plans

These are additional financial rewards tied to achieving predefined milestones. These milestones may be time-based (monthly, quarterly) or event-based (new product launch, market entry, etc.).

Best used for:

- Teams launching new products or entering new markets
- Incentivizing consistent performance across reporting periods
- Boosting engagement during slower sales cycles

Examples:

- Quarterly bonus for exceeding sales quota
- One-time bonus for first sale in a new region
- Team bonus for achieving customer satisfaction targets

Benefits:

- Builds momentum and urgency
- Reinforces specific company priorities
- Encourages team collaboration around shared goalstargets

Challenges:

- Short-term focus may override long-term strategy
- Requires regular plan updates to stay relevant
- May promote “sandbagging” behavior, delaying deals for timing advantage

Hybrid Models

A hybrid model combines a fixed base salary with variable incentives such as commissions and bonuses. It is the most widely used sales compensation structure due to its flexibility and balance.

Best used for:

- Roles that require both strategic thinking and revenue generation
- Sales environments where both retention and performance are priorities
- Organizations undergoing transformation or scaling up

Benefits:

- Provides income stability while rewarding achievement
- Attracts a wider range of talent profiles
- Can be tailored to individual or team objectives

Challenges:

- Requires careful balancing to ensure effectiveness
- Needs regular performance monitoring and clear communication
- May dilute incentive impact if variable portion is too small

Sales compensation plans should align with business goals, organizational stage, and sales process complexity. There is no one-size-fits-all approach. Fixed compensation provides stability and consistency, while variable structures drive agility and results. Commission models reward direct outcomes, while bonuses and hybrid systems offer strategic flexibility.

Choosing the right model - or combination of models - is critical to maximizing sales effectiveness and organizational performance.

Designing an effective compensation plan

Chapter 03



Designing a compensation plan is akin to crafting a construction blueprint. Every line drawn, every calculation made, and every material selected contributes to the final structure's durability. A compensation plan that lacks alignment or foresight is like a structure built on sand—it will crumble under pressure. Conversely, a well-crafted compensation blueprint can drive consistent performance, align sales behaviors with company strategy, and attract top talent. This section highlights the key principles and considerations involved in creating compensation plans that are both resilient and results oriented.

Aligning compensation with business goals

Compensation must serve as a strategic lever—one that reinforces what the business needs most at a given time. Salespeople respond to incentives. The goals you incentivize will ultimately shape their behavior, priorities, and time allocation.

For instance, if your company's primary goal is to increase market share, the compensation plan should heavily reward new client acquisition. Conversely, if your business is focused on customer retention and long-term value, incentives should prioritize renewals, upsells, and client satisfaction metrics.

It is essential to revisit and recalibrate these plans regularly. Business priorities evolve - whether due to market shifts, product lifecycle stages, or organizational growth. Your compensation strategy should evolve with them.

Checklist for strategic alignment

Is your compensation plan strategically aligned?

- What are your company's top three strategic sales goals this year?
- Are these goals explicitly reflected in your compensation structure?
- Are short-term and long-term behaviors both incentivized?
- Do your incentive structures support cross-functional collaboration, where necessary?
- Is there a mechanism to adjust plans mid-year if your priorities shift?

Tip: Tie at least 80% of the incentive structure to measurable outcomes that directly contribute to strategic objectives. The remaining 20% can flex to recognize qualitative contributions or emerging priorities.

Key factors to consider

While strategic alignment is the cornerstone, effective compensation design also requires a nuanced understanding of internal and external variables. Below are some of the most critical factors to weigh:

Market trends

Staying competitive in your industry is non-negotiable. High-performing salespeople are in demand, and they often compare their compensation packages with those of peers in similar roles across other companies. Conduct biannual benchmarking using third-party compensation data, industry reports, and recruiter insights. Adjust your compensation bands to remain competitive, especially in hot labor markets.

Business maturity

- The maturity of your business should directly inform the compensation model.
- **Startups:** New companies typically emphasize speed, experimentation, and growth. Sales compensation here often rewards new business and may include generous equity components.
 - **Growing companies:** At this stage, companies begin to value scalability and consistency. Compensation may start rewarding process adherence and client retention.
 - **Mature enterprises:** Established companies have a greater focus on profitability, margins, and account expansion. Compensation is often tied to long-term outcomes like multi-year renewals, customer health scores, or wallet share.

Sales roles and responsibilities

Not all sales roles are created equal-and neither should their compensation plans be. Different roles require tailored motivators.

Sales role	Key focus area	Compensation priority
Inside sales	Volume, speed	Activity-based incentives, bonuses for conversion rates
Field sales	Relationships, large deals	Commission on deal size, milestone bonuses
Account managers	Client retention, upselling	Renewal bonuses, margin-based incentives
Sales engineers	Technical consultation	Team bonuses, project completion incentives

Flexibility and governance

An effective compensation plan is never static. Business landscapes shift-new competitors enter, product pricing changes, or supply chain disruptions occur. Your compensation system should be designed with built-in checkpoints and flexibility. Incorporate the following practices into your compensation plans:

- **Quarterly reviews:** Evaluate if performance trends are aligned with compensation triggers
- **Pilot programs:** Before launching new structures across the board, test them with a small group to evaluate their effectiveness
- **Feedback loops:** Actively gather input from frontline managers and sales reps

Setting quotas and performance targets

Chapter 04



Imagine being handed a map with no destination. That's precisely how sales representatives feel when they are given quotas without clarity or rationale. For quotas to truly motivate performance, they must be grounded in data, aligned with business strategy and expected outcomes, communicated with precision. This section explores the science and structure behind setting sales quotas and performance targets that drive results and inspire teams.

Creating achievable and motivating sales quotas

Develop quotas based on data

Effective quota setting begins with analysis, not assumptions. While instinct might occasionally offer insights, sustainable sales performance relies on data. Key inputs should include:

- **Historical sales performance:** Analyze previous sales cycles, average deal sizes, and close rates to set a realistic baseline
- **Territory potential:** Consider market maturity, customer base, and competitive landscape in each sales rep's territory
- **Sales cycle length:** Align quotas with the typical duration of sales conversions, especially in industries with long or seasonal cycles
- **Resource allocation:** Take into account the support available to the rep - marketing leads, presales support, or technology tools can influence productivity

Establish a structured quota-setting framework

To ensure fairness, motivation, and strategic alignment, consider the following three-step quota-setting model:

1. **Review past performance:** Evaluate the last 12-24 months of sales data per rep or territory. Identify average and top-tier performance to set benchmarks.
2. **Forecast future potential:** Incorporate market trends, product roadmap changes, and pipeline health into your projections. Quotas must reflect both internal goals and external realities.
3. **Adjust for external variables:** Account for economic conditions, regulatory impacts, competitive actions, and shifts in customer demand. Flexibility is key in volatile markets.

When salespeople understand that their quotas are based on transparent and logical criteria, they are more likely to buy in - and more likely to deliver.

Designing a tiered compensation model

To reward varying degrees of performance and encourage reps to exceed their targets, consider a tiered quota attainment structure. This allows you to:

- Recognize and reward incremental success
- Reduce the drop-off in motivation after quota attainment
- Encourage reps to maximize effort, even after hitting their targets

Example of a tiered commission structure:

Performance Level	Commission Rate
0-100% of Quota	5%
100-130% of Quota	8%
130%+ of Quota	12%

This model rewards foundational success while making overachievement financially compelling.

Accelerators: Fuel for top performers

Accelerators are increased commission rates applied to revenue earned beyond the quota.

They are a proven motivator for high performers and serve as a strategic investment in top talent. Implementing accelerators can:

- Incentivize over-delivery without changing the base target
- Reward high-performers without capping their earnings
- Drives revenue gains at a proportionally lower cost

Best practices for using accelerators:

1. **Set clear rules:** Ensure reps understand when and how accelerators apply
2. **Align with margins:** Apply accelerators where high-margin products are sold, maximizing profitability
3. **Monitor and adjust:** Review performance trends quarterly and adjust accelerator thresholds if needed to maintain balance

Setting quotas is both an art and a science. Done right, it transforms from a control mechanism into a powerful performance driver. Use data to set fair, ambitious targets.

Create tiered reward structures to recognize every level of contribution. And above all, ensure your quotas are transparent, justified, and designed to inspire.

Incentivizing long-term success

Chapter 05



While a quick win can drive immediate numbers and create a buzz, it's the loyal customer that sustains your business over the long haul. Sales reps who focus on building lasting relationships create a more predictable revenue stream, ensuring continued growth. It is crucial that compensation plans reflect this reality, rewarding both short-term success and long-term retention.

Incorporating customer retention into compensation

Shifting focus to customer loyalty

To ensure that sales reps maintain an eye on long-term success, compensation should extend beyond just closing deals. By incorporating customer retention metrics into the compensation framework, businesses can drive behaviors that contribute to customer loyalty, satisfaction, and sustained revenue.

Key customer-centric metrics to include:

- **Customer Lifetime Value (CLV):** CLV represents the total revenue a customer is expected to generate over the course of their relationship with your business. By linking sales rep compensation to CLV, you are incentivizing reps to not only acquire customers but to nurture them for long-term value
- **Upsell/Cross-sell Ratios:** Motivating reps to cross-sell and upsell additional services or products ensures that customers are engaging with a broader range of offerings, further cementing the relationship and increasing revenue potential
- **Renewal Rate:** High renewal rates are a clear indicator of customer satisfaction. Rewarding reps based on renewal rates encourages them to ensure customers receive continuous value and support

Linking retention to compensation

- Incorporating retention-focused bonuses, based on customer satisfaction indicators such as Net Promoter Scores (NPS), contract renewals, and churn reduction, can be a powerful tool for guiding sales teams to prioritize customer success. These adjustments ensure that reps are not solely driven by one-time sales but by long-term relationships that promote retention and growth.

Balancing short-term wins with long-term growth

Short-term commissions are crucial for maintaining urgency and rewarding effort in the immediate term. However, if compensation structures are only designed to reward short-term wins, they risk neglecting the future health of the business. Long-term incentives are just as important for creating stability and aligning reps' efforts with your organization's broader goals.

Long-term incentives for stability and growth

- **Equity or stock options:** Offering equity or stock options can be a strong motivator for employees to think beyond their monthly or quarterly sales targets. It helps align the personal success of employees with your company's long-term growth
- **Recurring revenue bonuses:** For businesses that operate on subscription or recurring revenue models, offering bonuses tied to ongoing customer retention (such as annual contract renewals) can create a steady revenue stream and incentivize reps to maintain customer relationships

Leveraging sales compensation technology

Chapter 06



In the fast-paced world of sales, manual calculations and spreadsheet-based systems have become outdated. Today, automated tools are essential for ensuring transparency, speed, and accuracy in compensation management. Leveraging technology in sales compensation not only streamlines administrative tasks but also improves real-time visibility, ensuring that your team is aligned and motivated.

Compensation management software: The power of automation

Compensation management software has revolutionized the way businesses calculate, track, and pay sales commissions. Solutions such as Xactly, Varicent, Spiff, and SAP offer comprehensive capabilities for managing complex commission structures. These solutions automate the entire compensation process, significantly reducing the time spent on administrative tasks and minimizing errors.

Key benefits of compensation management software:

- **Error reduction:** Manual calculations are prone to human error. Automation ensures accuracy and consistency, giving leadership and reps peace of mind
- **Increased visibility and transparency:** Real-time tracking ensures that sales reps always know where they stand with respect to their targets and commissions - enabling greater transparency that builds trust and motivation
- **Easier scenario planning for leadership:** With advanced analytics, leadership can model different scenarios, making it easier to adjust compensation plans and forecast future payouts

By using these advanced solution, you can eliminate the limitations of manual systems and empower your sales teams with clear, real-time compensation tracking.

Integrations with CRM and payroll systems

Integrating compensation management software with CRM systems (such as Salesforce) and payroll solutions ensures that compensation data flows seamlessly across your organization.

This integration eliminates manual data entry, reduces confusion, and ensures that commission payouts are aligned with actual sales performance.

Key benefits of integrated sales compensation:

- **Real-time data flow:** Sales performance data is immediately reflected in compensation calculations, reducing the lag between performance and payment
- **Error reduction:** By automating the transfer of data between systems, you eliminate the risk of manual entry errors and discrepancies
- **Increased efficiency:** Integration speeds up the entire process, from deal tracking in the CRM to commission calculation and payout, allowing sales teams to focus more on selling than on administrative work

Case Study: Integrating Varicent with Salesforce

At Argano, the integration of Varicent with Salesforce led to a dramatic reduction in compensation disputes, which dropped by 90%. Sales reps now have immediate access to accurate compensation data within their CRM, ensuring greater satisfaction and trust in the process. This integration not only saved time but also improved the accuracy of compensation payouts.

Taking the next step towards modernized sales compensation

Chapter 07



In the fast-paced world of sales, manual calculations and spreadsheet-based systems have become outdated. Today, automated tools are essential for ensuring transparency, speed, and accuracy in compensation management. Leveraging technology in sales compensation not only streamlines administrative tasks but also improves real-time visibility, ensuring that your team is aligned and motivated.

Compensation management software: The power of automation

A compensation plan is not merely a collection of numbers on a spreadsheet. It is a reflection of your company's culture, ambition, and vision for the future. When designed strategically, compensation can become a powerful tool to align your sales team with your organizational goals - driving higher motivation, accelerated performance, and long-term success.

Key Takeaways

As you reflect on your compensation strategy, consider the following:

- **Strategic alignment:** Ensure that compensation reflects your business goals and objectives
- **Flexibility:** Regularly update compensation plans based on feedback, changing market conditions, and evolving company strategies
- **Motivation vs. stability:** Balance fixed and variable pay to incentivize short-term success while providing long-term stability

- **Customer focus:** Reward sales behaviors that prioritize customer retention and relationship-building
- **Technology integration:** Leverage solutions that reduce errors, increase transparency, and streamline compensation management

Sales compensation isn't a one-time project; it is an evolving strategy that requires regular reviews, feedback loops, and adaptability. By aligning compensation plans with your business goals, incorporating customer retention metrics, and leveraging advanced technology, you can create a compensation framework that drives sustained performance and growth.

With deep expertise in sales performance management and digital transformation, Argano can help you navigate these complexities. Partner with us to design, implement, and continuously optimize compensation plans that not only attract and retain top talent but also align your sales team with your strategic vision, ensuring long-term success and measurable results.

About Argano

Argano is the world's first and largest digital services consultancy focused exclusively on enabling high performance across our clients' business operations, at scale and around the globe. Forged from world-class specialist consultancies with decades of enterprise technology, data, cloud, AI and operations expertise, Argano supports the full transformational journey through strategy, design, execution, and ongoing managed services. We modernize and optimize core functions across customer engagement and service, revenue management, finance and planning, supply chain, and workforce optimization. Our promise to clients is maximizing their growth, profitability, commercial agility and customer satisfaction, guaranteed.

Learn more at argano.com.

Get started today! Schedule a Sales Performance Optimization Strategy Session to assess business drivers, understand SPM market trends, and develop an actionable roadmap for success.

Contact us at info@argano.com.

