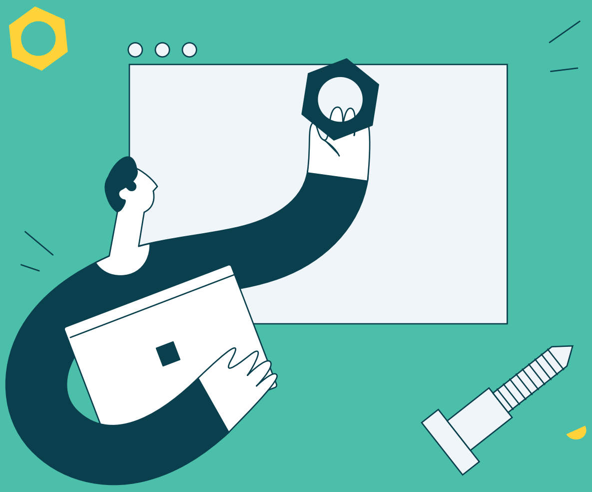

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Nuts and Bolts of Compensation Plan Design for Sales Development Representatives

Best practices for designing SDR incentive plans that drive sales and growth.

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Introduction

For at least ten years, the use of Sales Development Representatives (SDRs), also known as Business Development Representatives (BDRs), has been growing. They have long been prevalent in software companies but are proliferating in other B2B sales organizations where lead generation is one of the key drivers of success. With increased internal and external digital lead generation capability, SDRs can be both more efficient and more effective than relying exclusively on more highly-paid sellers to do the job.

SDRs are often involved in marketing campaigns, managing lists, and contacting customers and prospects across platforms (not just by phone). As a result, they may be as closely linked to the marketing organization as sales. But wherever the SDR sits in the organization, it is a sales role. A role where differences in skill, tenacity, and persuasiveness can yield dramatically different results. And there is always a strong individual component to the nature of the work. For these reasons, this is a role for which sales incentive compensation can be particularly effective. So, having an effective incentive plan for your SDRs is both essential and doable.

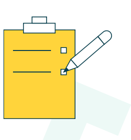
Nevertheless, many organizations struggle with determining the best designs for their SDR incentive plans. There are alternative approaches, each with its strengths and limitations, and there is no right approach for all companies. This is because of differences in the role's objectives, the range of responsibilities, and the ability of the company to track and evaluate SDR results efficiently.

As is the case with incentive design for other sales roles, SDR incentive design must flow from the objectives of the role in support of the marketing and sales objectives of the company, from the responsibility of the role within the sales process, from the objectively measurable results that are within the control or influence of the role. Therefore, to design the right incentive plan for your SDRs, follow these steps:

Clarify the objectives of the role

Clarify SDR responsibilities within the sales process

Understand your constraints



Evaluate alternative approaches based on how well they align with these objectives, responsibilities, and constraints

Defining The SDR Role In Your Organization

Role Objectives

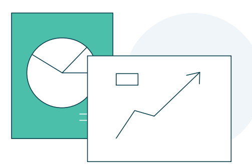
SDR objectives may include:

- Prioritizing leads
- Qualifying leads
- Setting appointments for sales representatives
- Introducing products and services and their benefits
- Making routine sales
- Implementing marketing campaigns
- Inviting customers and prospects to events
- Following up on behalf of sales representatives to keep opportunities alive

Performance measures support each of these objectives, but it will not serve you well to have more than two or three performance measures in the plan. Furthermore, the objectives of the SDR may shift with changing marketing strategies to focus on different products, customers, or activities over time. Therefore, if you tightly link the SDR incentive plan to certain specific measures, there may be a risk that they will be asked to perform too many tasks that do not generate incentives for them.

Best practice #1

Try to stick to no more than two or three performance measures in the compensation plan.



So, clarify which objectives are primary, which are likely to remain relatively constant, and which are likely to be temporary. Then, design your plan around the primary objectives and either ensure that the salary is sufficient to ensure compliance with non-incentive generating activities or incentivize short-term campaigns with short-term incentives.

Responsibilities Within the Sales Process

Any sales process has three broad phases: access, persuade, and fulfill/follow up. SDRs operate primarily in the first phase: Access. Their job is to initiate engagement with potential buyers. But they may be tasked with a variety of responsibilities in pursuit of this. For example, they may:

- Generate their own prospect lists from internal and external databases
- Segment lists and determine the appropriate objectives and tactics for each segment
- Design and implement a program of emailing, telephoning, and asking questions within each segment

Best practice #2

The ultimate objective for any SDR — regardless if they do the up-front segmentation, targeting, and customization of sales approach — should be **accessing promising potential buyers.** There are at least two ways that differences in responsibility should impact the design of the incentive plan: 1) differing expectations around customer-contact work, and 2) how much preparation is required to meet performance standards.

Or they may be given a list and a structured script and process to implement. Nevertheless, whether they do the up-front segmentation, targeting, and customization of sales approach, their ultimate objective is the same: accessing promising potential buyers. But there are at least two ways that differences in responsibility should impact the design of the incentive plan:

1. Suppose large swaths of time are devoted to preparation. In that case, the expectation for the number of calls (and maybe the results are expected from them) must be lower, and it may be necessary to extend the timing of measurement and payment. Many SDR plans are measured monthly or bi-weekly, which is great for motivational impact. (Side note: check out my white paper, Leveraging Incentives to Drive Sales Motivation, to learn how sales motivation works and how to effectively motivate your sales team.) However, if the customer-contact work is unevenly distributed throughout the quarter, the timing of measurement and payment may need to be extended.

2. Most companies agree that the primary responsibility of the SDR may be to get qualified appointments for sales representatives, and the representative's job is to close the sale at the maximum possible value, selling the full range of products. But we all know that some SDRs have a higher close rate for their appointments and others have a higher average sale value. Much of this is due to sales talent, but some is a result of the amount of preparation that is expected. So, every company should at least consider crediting SDRs not just on the number of qualified appointments they generate or the number of sales (of whatever volume) that ultimately come from those appointments, but also the sale volume and close rate.

Constraints to Incentive Plan Design

The SDR role can be very well suited to effective plan design. It lends itself to the use of commission and frequent measurement and payment. A commission on sales appointments ($ per appointment) paid monthly can really drive results. But there are constraints. One mentioned previously is that the job of the SDR may not be to contact customers every day. Another is that some SDRs may be assigned to customer segments or tasks that are both important and generate less incentive. You don't want the incentive plan to get in the way of allocating your best resources to where they are most needed.

Best practice #3

A commission on sales appointments paid monthly can really drive results. But there are some constraints (e.g., sales crediting, unique job responsibilities) that are worth noting.

A second constraint, which almost all SDR organizations struggle with, is sales crediting, particularly for appointments or qualified leads. Sales representatives complain that the SDRs set them up with poorly qualified leads and appointments that waste their time. And SDRs complain that some sales representatives do not follow up on promising appointments and leads. So how does one decide if a lead or appointment is worthy of credit? Alternatives are:

- The salesperson or manager uses a structured assessment. This can potentially open the door to subjectivity and inconsistent treatment.
- An algorithm within the CRM system makes the assessment based on the information entered, which may or may not even be correlated to sales results.
- Leads and appointments are not credited. Only sales resulting from those leads and appointments, which requires the CRM system to be able to track sales back to the SDR who qualified the lead or set the appointment. Also, a sales process where this is not ambiguous. This will greatly increase the focus of the SDR on the probability of closing and the ultimate size of the sale, which may or may not be what management wants.

One final constraint to consider is whether an SDR can maximize their incentive earnings by "burning the list" or "skimming." There is a theoretically optimal amount of time that the organization would like an SDR to spend on a prospect to ensure the opportunity is fully explored and not abandoned too soon. But suppose each SDR has access to an unlimited list. In that case, they may be able to maximize their incentive earnings at the expense of overall sales by ignoring or quickly abandoning opportunities with less potential.

Alternative Approaches

In considering alternative approaches to sales compensation for SDRs, we should examine each area of sales compensation plan design decision-making: eligibility, pay levels and mix, upside, performance measures, and mechanics.

Best practice #4

There are five core elements of sales compensation plan design decision-making: eligibility, pay levels and mix, upside, performance measures, and mechanics. To fully understand the alternative approaches to sales compensation for reps, you must consider each.

1. **Eligibility (for sales compensation)**

   In most sales organizations, the SDR meets the criteria for sales compensation eligibility: direct customer contact and influence over buying. So, the default should be that SDRs are on sales compensation. The only exception would be if the SDRs are strictly implementing marketing programs with little or no customer contact, in which case they are effectively not SDRs.

2. **Pay Levels and Mix**

   The SDR is generally an entry-level sales role, with lower total target cash compensation than all other sales roles. Nevertheless, the inherent performance differences among SDRs can mean that high performers may earn well over target. But the salary is likely to be low. And at that level, it is hard to hire anyone if the salary gets too low. Hiring someone who earns $200,000 at target with a 40/60 plan ($80,000 salary and $120,000 incentive at target) is easier than hiring someone who earns $40,000 at target with a 40/60 plan ($16,000 salary and $24,000 target incentive). So, SDR pay levels put downward pressure on the pay mix.

   In addition, the ability of the company to accurately measure individual SDR performance should influence the pay mix. If individual performance can be accurately, objectively, and immediately tracked, it makes much more sense to put more pay at risk than if job responsibilities fluctuate and individual influence on sales results is harder to measure.

   Finally, SDR pay levels and the mix should consider career paths. In many organizations, the SDR role is a stepping stone to sales or account management. Therefore, the compensation progression to the next level should not inhibit promotion into likely next roles.

3. **Upside**

   Notwithstanding the previous observations, the strong individual impact that SDRs can have argues for a meaningful amount of pay at risk and the potential for upside earnings over 2x target incentive.

In the traditional SDR role, where individual performance can be measured accurately and tends to vary widely, this can often be accomplished in two ways: either with a flat commission rate or with a slight accelerator over target performance, measured monthly or quarterly to avoid boom/bust behavior.

In environments where SDRs may be able to maximize their incentive earnings while sub-optimizing company investment, as mentioned earlier, a lower upside will somewhat reduce the incentive for gaming or unethical behavior, albeit at a cost to motivational impact.

4 Performance Measures

The table below lists a menu of potential performance measures to consider for SDRs, with their strengths and limitations. The first ones are the most prevalent.

Performance Measure	Strengths	Limitations	Note
Qualified leads or appointments (that are handed off to a salesperson)	Aligns with the primary objective of most SDRs	Fairness of determining what counts	Common across most segments/industries
Leads that result in a sale regardless of the value of the sale	Not paying for value-less leads	No incentive to push for a larger sale	Often within a certain time (x months)
Value of sales from SDR leads (often capped per sale)	Rewards thorough and intelligent selling	May not be seen as the role of the SDR	Often within a certain time (x months)
Qualified leads or sales per 1,000 names on the list (if needed to fight against skimming)	Effective where necessary	May be hard to implement, depending on lists	Secondary measure or a potential modifier
CRM hygiene to ensure info is complete and accurate	Can be a useful secondary measure	May be best left outside the plan	Use as modifier or cause for payment delay
Bounty by product or # of products ($ if the sale includes certain products)	Aligns with campaigns, new products	Not necessarily “needs-based” selling	Telesales measure
Points based scheme (e.g., earn commission per point or point values by product can change monthly)	Allows shifting priorities while keeping plan structure consistent	Can get complex and might not be great for appointment setters	Common in SMB telesales
Team performance (any measure at the team vs. individual level)	Drives cooperation and sharing of best practices, and can help if SDRs may team up on leads	Far less motivational because at the team level	Individual-level measurement recommended where feasible

5 Mechanics

The majority of SDR incentive plans are commission-based vs. based on quota attainment. This is because of the tendency where there is a reasonably high volume of leads, and there is usually equal opportunity between SDRs. So, there is seldom a need for individualized quotas. The plans tend to pay out monthly or bi-weekly. However, a per-lead/appointment/sale commission can be highly motivational and should be used if possible.

Some companies increase the commission rate as the SDR produces more volume within a month, and others have a scheme where SDRs are only paid above a threshold level of monthly performance. While for some SDRs, these slight complexities may drive higher productivity, they may produce unintended consequences:

- Any scheme with an accelerated rate can potentially motivate sellers towards boom/bust behavior to have more volume credited at a higher rate. Admittedly, this is less likely for SDRs than for other sales roles that have greater control over the timing of sales credit, but the possibility should be considered.
- Likewise, thresholds, where no commission is earned on the first few leads/sales, saves money on low performers but can feel demotivating even to those who never fall below the threshold.
- While accelerated rates will deliver more incentive to the most productive SDRs, paying them more may not be necessary. Even without accelerated rates, some SDRs will earn much more than average because of significant differences in performance and won't be tempted to leave for better pay. But if you put in accelerators and then take them out later, they will be demotivated and may choose to leave even if they would still be earning a lot without the accelerators.

Conclusion

Designing an effective SDR incentive plan is not complicated. More importantly, you can avoid unintended consequences if you appropriately consider how the role is defined and the constraints. However you proceed, remember that the best thing about SDR incentive plans is that they can really drive performance!

Want some extra reading?

If you are involved in sales incentive plan design, you have probably dealt with the concept of "linkage." The simplest form of linkage is a hurdle, or a "gate," which is an on/off measure that can be a useful addition to many incentive plans. I recently covered the positive effects of using hurdles in sales incentive plan design, along with guidelines for their use (plus a real-life example).

Here are a couple of other informative resources to guide the development and maintenance of sales commission programs:

How to Develop a Sales Compensation Plan
Communicating Comp Plan Changes
What is a Good Sales Commission Plan Structure?

About the Author

Elliot Scott is the owner of Elliot Scott Consulting LLC and has been a sales effectiveness and sales compensation consultant for over 20 years. Numerous organizations, such as World At Work, have published his articles and he has worked around the world with clients who have a range of coverage and distribution models. Elliot has held senior positions in the sales effectiveness and sales compensation practices of Towers Watson, The Alexander Group, and ZS and works both independently and as an affiliate of technology companies and other consulting firms. He can be reached at escott@escottco.com.

About Elliot Scott Consulting LLC

Sales compensation and sales effectiveness consulting. Services include sales compensation assessment, design, communication, benchmarking, modeling, and teaching; sales organization design, sales productivity modeling, resource sizing, and deployment.

About CaptivateIQ

CaptivateIQ is on a mission to bring transparency and joy to incentive compensation management. We believe that getting paid should be fun and that work should be a breeze for compensation plan administrators. Yet, most companies still rely on spreadsheets or legacy software providers to manage this significant and influential line item in a sales budget. That's why we've created a scalable, flexible, no-code solution that enables finance and operations teams to model, automate, and optimize performance incentives. Twenty of the Forbes' Cloud 100, including leading brands like Amplitude, Gong, and Hopin, use CaptivateIQ to power their incentive compensation programs.

To learn more, visit www.captivateiq.com and follow @captivateiq.

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