

▶ Sample Compensation Plans

As an IT service provider, you want your sales team to help you grow your business and meet your revenue goals. In order to help make this happen, you need to develop an appropriate compensation plan to motivate sales reps to close more deals and reach their quotas.

There are three standard approaches to compensation plans that work well with recurring revenue deals: Annual Contract Value, Total Contract Value, and Monthly Recurring Revenue. Review the three examples below to help determine which option will work best with your business model.

1. Annual Contract Value (ACV)

How It Works: In this model, sales reps' compensation is based on the annual value of the managed services contract. A compensation rate between 8 percent and 12 percent of the annual contract value is the industry standard, but about 10 percent is most common.

Sample Deal: 12-month managed services contract for a law firm with 20 employees at a rate of \$100 per user

ACV: \$24,000

Sales Rep's Compensation: \$2,400 lump sum

2. Total Contract Value (TCV)

How It Works: Similar to ACV, the Total Contract Value model pays sales reps a lump sum based on the value of the contract, and the industry standard rate is roughly 10 percent. The difference is that Total Contract Value plans take into account the total assessed value of the contract, including any one-time upfront costs.

Sample Deal: 18-month managed services contract for a financial services firm with 15 employees at a rate of \$100 per user, plus a \$3,000 one-time fee for transitioning off a Windows 2003 server

TCV: \$30,000

Sales Rep's Compensation: \$3,000 lump sum

3. Monthly Recurring Revenue (MRR)

How It Works: If you use this model, sales reps will be compensated based on a customer's monthly fees. Instead of being paid as a lump sum, though, compensation is paid on a monthly basis over the course of the contract. This is a popular option because it is more predictable and helps limit problems that can come up when compensating sales reps based on future revenue that hasn't been collected yet.

Sample Deal: 2-month managed services contract for a dental office with 10 employees at a rate of \$100 per user

MRR: \$1,000

Sales Rep's Compensation: \$100 per month for the duration of the contract