Sales Performance and the Subscription Economy

What are the main drivers for a sales organization in a subscription-based business?

Subscription-based businesses must focus on attracting, growing and retaining subscribers. This may sound easy, but it requires establishing and optimizing a set of continuous processes and ensuring that the sales team is aligned to both the subscription products and the customers. Organizations in the subscription economy have developed metrics for this purpose. Most also have created new customer success or customer satisfaction positions focused on retention. But they then must determine how to motivate and incent the people in those positions in order to achieve the best possible performance.

To ensure success, organizations should embrace an overall subscription management process and adopt applications that provide SPM-type support – in other words, create an SPM environment in which everyone in the organization understands his or her goals and incentives. This enables everyone, particularly those in sales, to plan activities and actions appropriately and understand the compensation they are earning for doing such work.

Sales Performance Management can have a significant impact when applied to subscription-based businesses. SPM systems utilize a number of key tools. One is incentives to sales, account management and customer-related teams. Another is analytics that can assess subscription processes to determine the success of SPM strategies. Our research finds that aligning the sales force to the business strategy and goals is the top sales-related benefit of using sales compensation systems, reported by more than two in five (43%) organizations.

How is success measured in a subscription-based business?

Metrics are key. But success in subscription-based businesses must be measured using metrics appropriate to the stage of growth of the organization. Early growth organizations should focus on the addition and retention of new customers because the trajectory of the customer commitment to the business is key to success. Doing this requires that the activation of new customers is managed efficiently.

Success in a subscription-based business can be measured by its annual recurring revenue (ARR) and profitability to target. But functionally most organizations are managing a shorter-cycle metric, the monthly recurring revenue (MRR), to ensure responsive management of the business. Organizations that are providing an array of additional services to add on or complement the core brand-identified services will focus on the average monthly revenue per user or customer (ARPU) metric, which is an indicator of the effectiveness of efforts to increase the revenue and margin

per subscriber. But data on acquisition costs is also important because the degree of churn can impact success significantly.

Broader measures are also needed. Measuring success requires key performance indicators (KPIs) that incorporate not only important metrics but also analysis of how the metrics compare to goals, which indicates progress as well as highlighting any underlying issues. The customer acquisition costs (CAC) KPI includes metrics that measure marketing, sales and operations costs (including people and systems) required to activate customers within a period of time. It is also important to have a KPI that looks at customer retention, which includes not just the percentage of customers retained over a period of time but also metrics reflecting customers churning or unsubscribing.

Initial subscriptions and revenue growth will indicate early success; a focus on both sales and customer engagement is essential to increase the velocity of both. More established organizations may extend success measures to include measures such as continuous customer satisfaction (CSAT) and ability to cross- and upsell customers, which can increase the margin per customer and the customer's lifetime value (LTV).

To understand the impact of customer turnover on success, organizations should have a measure of revenue as a percentage of the total potential MRR. The underlying metric to support this is customer satisfaction, which can be measured in myriad ways using customer feedback and data on customer unsubscribes. This customer retention information can help guide future customer retention efforts.

Whatever the phase of growth, though, success requires effective operational and financial governance through metrics. These can deliver significant insights into how to be most efficient in servicing the customers.

How will changes to compensation for my sales team impact future planning?

Compensation that involves subscription-based commissions or incentives will require sales planning that is unified from both customer and financial perspectives to ensure that the allocations are designed properly. Since compensation is critical to motivate sales organizations and ensure efficient sales execution, it is important that this be addressed properly in planning. Our research finds that almost two-thirds (61%) of organizations say inconsistent execution in sales is an issue motivating them to seek changes in their sales compensation. Planning sales compensation so it's aligned with the subscription process will ensure that people are motivated to perform their role and will reduce issues contributing to inconsistent execution.

Applying compensation to subscription-based selling is different from applying it to the purchase of traditional products and services. The goal of the subscription-based business is to have a continuous revenue stream that is predictable across future time periods. To ensure customers are satisfied and continue to pay their subscriptions for the time periods contracted, an organization needs to use people and processes to ensure customers are satisfied and are utilizing the subscription. Multiple people from account management and customer support areas can be involved, so their compensation also must be addressed. Of course, their compensation should reflect and further the goals of the organization to attract, grow and retain customers.

When the contract value of a subscription is realized over a period of time, compensation should reflect that and be disbursed as the customer pays for the subscription. In many subscriber-based organizations the commission credit is earned on a daily to monthly basis but is not paid until the subscriber has paid the organization or the period of service has been completed.

Customer retention is essential, and traditional sales incentives to grow new customers do not necessarily help to activate the customer or reduce churn. The organization thus should consider allocating commissions and incentives to not only those who help close the sale but also those who help retain the customer value.

Incentive-based compensation for people involved with subscriptions should be managed differently than compensation for other revenue-producing sales, because a customer can subscribe to a service and then unsubscribe from it, in which instance the incentives should adjust appropriately. Conversely, a customer can also subscribe to additional services or modify the existing subscription, which can mean that multiple people earn compensation. It can be difficult for organizations to determine how to effectively allocate incentive credit to reflect subscription time periods. Our research finds that only 52 percent of organizations report they are satisfied with their current process to calculate sales organization incentives; when organizations fail to consider the complications of subscriptions, the situation worsens.

Subscription-based businesses should design compensation plans that align to the subscription process from the moment the service is contracted, activated or otherwise adjusted by the subscriber throughout the service relationship. Incentive credit for those who acquire the subscription can include credit for every day the subscription is maintained, which of course means sales professionals in these environments could find their incentives changing due to commission credit on the contract value of the subscription and adjustments of commissions owed over a monthly, quarterly or annual period. Compensation methods in a subscription-based business should be flexible, shifting to align with the maintenance of subscription revenue streams.

How does managing compensation with a Sales Performance Management solution change in a subscription-business model?

In a subscription-based business a wider range of roles and types of compensation are used to attract and retain subscribers. In the non-subscription-based environment, variable compensation is traditionally paid according to sales of products sold and levels of quota attainment, which is relatively simple to calculate. In the subscription-based business, sales incentives can be applied with respect to the subscription period, primarily at time of purchase, when it is activated and then when it is renewed. However, designing compensation plans for other individuals involved for the subscriber lifecycle vis-a-vis their contribution to subscriber revenue is much different. This demands that organizations examine a variety of incentive methods for those involved in the subscriber lifecycle.

Organizations' use of Sales Performance Management must change to reflect the ways that organizations are motivating and compensating the people involved with subscriptions. One example is the use of effective dating in the subscriber life cycle to determine when compensation is paid. The most important subscription date for organizations is not when a customer signs up for service but the date that the service is used, which is when revenue is recognized according to the new accounting standard, ASC 606. This is also when organizations are expensing commissions allocated to the subscription, because that is the moment when the sales commission is actually paid – when the revenue is recognized and maybe even billed. It is also important to compensate the people involved in getting a subscription activated and used because these subscriber moments impact revenue.

To manage distributed compensation across periods of time requires more sophistication not only in the development of compensation plans but also in the modeling of them. A large array of choices in how organizations can compensate across a subscriber lifecycle means more collaboration that cuts across departmental lines, including sales and business operations,

management and finance. The variety of choices will also require more analysis of internal operational data to determine the effect of compensation on the efficiency of onboarding or activating subscribers as well as effectiveness in retaining and renewing them. These are just a few examples of how managing compensation and having the right type of Sales Performance Management system is essential for successful operation in the subscription economy.

You mentioned account managers, customer success and other roles now being included in how sales revenue/performance is driven in an organization. What are companies doing to create alignment and drive results?

Subscriber businesses have been or are re-examining roles and responsibilities within their subscriber processes. This becomes critical as subscribers may be assigned to a succession of account managers or customer success professionals over the course of their lifetime value. Because it is critical to maintain customer satisfaction, having people who are dedicated to that responsibility – and are incented for their success at it – is also critical. These individuals are different from account managers who might be assigned quotas and targets to cross- and up-sell subscriptions. Companies are creating new positions to support subscriber processes and initiating associated incentives to ensure alignment to the metrics that contribute to the success of recurring revenue streams.

Why is Sales Performance Management becoming so important for subscription businesses?

Subscription businesses need to be as efficient and effective as possible. Ensuring that subscriptions are well-managed includes being able to process and credit commissions and incentives at the frequency specified by the compensation plan and to automate payments. If this is not managed properly then organizations incur costs from the resource-intensive manual work required to administer commissions. As an array of employees in addition to the sales or account managers also can earn incentives, complex allocations and credits must be processed accurately. It is critical that organizations support effective dating of commissions to ensure that calculations are done properly. This level of processing is part of the foundation of effective Sales Performance Management and is critical for a subscription-based business.

How can Sales Performance Management help companies that are transitioning from the traditional business model to a subscription-based model?

Sales Performance Management is designed to help sales organizations establish goals and plans for sales to ensure alignment to quotas, using compensation plans and incentives that make it all a reality. Now, a business transitioning to a subscription-based model can use a new SPM approach to make all the business professionals involved in the subscription process part of one plan, ensuring incentives for – and therefore the engagement of – all participants. This helps businesses understand the roles and the metrics that ensure success for everyone involved and provides a unified approach to management and operations. A unified approach to SPM that focuses on subscriptions and sales is essential to guide this transition in the most efficient manner possible.

What sets a subscription-business-ready SPM system apart from traditional business-oriented SPM systems?

The subscription-focused business typically has a greater sense of urgency around sales-related compensation as it is dependent on growing and maintaining continuously flowing recurring revenue for services. This is a different approach than selling products, with the latter typically involving a compensation plan focused on a territory, accounts and a discrete set of products. SPM in this traditional approach is focused on selling the products while issues of customer use and satisfaction are left to another department. In a subscription-based business, SPM must focus on the entire subscriber life cycle to ensure revenue continuity for the organization. To support that requires up-to-date metrics on subscriptions. This in turn requires data from a multiple set of trusted sources, including data repositories of orders, activations, changes, billings and related data. Our research finds that only one-quarter (27%) of organizations are very confident in the quality of compensation process information. This issue can be mitigated with a more expansive, centralized approach to SPM that focuses on data-related processes to ensure data integrity and quality as well as accuracy.

What should organizations look for in a solution for Sales Performance Management that will align to the new requirements for subscription-based businesses?

In looking for a solution, the first step is to understand the factors that grow and maintain the subscription processes. Of course, people are involved and are compensated for achieving the business- and revenue-related expectations of the organization. But that's a two-sided coin: The organization must ensure that the needs and concerns of the individual employees working within the processes are addressed so that they're able to access and understand their compensation. The SPM platform should allow for the flexible and responsive design, administration and adjustment of compensation and incentive plans. And it should operate on a unified platform and set of applications that leverages all the information related to the sales organization and to the tracking and measurement of subscriptions. This is not easy, as the array of data sources and multiple applications are not always easily integrated. In fact, many companies have given up and instead are using personal productivity tools, which are very poor tools for managing compensation.

Unfortunately, almost three-quarters (71%) of organizations use spreadsheets regularly or universally to manage sales compensation, even though 61 percent admit that reliance on them makes it difficult to manage sales commissions efficiently. Addressing the need to have a dedicated approach to SPM designed to handle subscriptions is critical for business success. The importance of the usability and manageability of the technology should not be underestimated, as when it works well it enables businesses to manage the process appropriately. Having the right SPM solution will improve the engagement of the people involved in the subscription process and produce desirable outcomes.

Where is SPM going to support the subscription economy?

The needs for subscription processes in Sales Performance Management are, as I have outlined, changing to match the new demands of the subscription economy. In the past, marketing, sales and customer service were distinct, mostly independent departments. This is no longer the case in the new interconnected digital world of subscriptions and the people involved with them. Subscription-based businesses need a more seamless approach in assessing how marketing, sales and customer efforts impact the subscription experience. The distribution of

responsibility to attract, grow and retain subscribers also changes how SPM must align to the subscriber processes and measure expected performance in an organization. Organizations must examine the application of incentives as part of the variable compensation to ensure that the activation and retention of subscribers is as efficient as possible.

SPM is evolving. Over time it will adapt to track and manage not only sales but everyone in the organization who is involved with subscribers, and inevitably this will bring about a new definition of SPM. This new approach will involve modeling the subscriber life cycle, including when subscription revenue is recognized and when individuals earn and are owed subscriptions. A subscriber life cycle that involves marketing, sales and service will require new stewards to ensure overall subscriber satisfaction and to help optimize the potential value of every subscriber. These are roles and functions all of which may justify an incentive – one that of course then will need to be allocated from and calibrated relative to the subscriber revenue.
SPM as we have known it must evolve as I have outlined in order to enable an organization's supporting team to achieve the needed and expected revenue and margins.

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Mark Smith, is the CEO and chief research officer of Ventana Research and drives the company's global research agenda. Mark is an expert in enterprise software and business technology innovations including the business areas of customer experience, sales and marketing. Mark covers the digital technology innovation areas of artificial intelligence, business analytics, big data, bots and natural language processing, collaboration, Internet of Things, mobile technology and wearable computing.