

Inside Sales Compensation Plans for Long-Term Revenue Generation

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A Tale of Two Companies

- **The HubSpot Story**

Once upon a time, HubSpot, a business offering inbound marketing solutions, was a startup. As such, they eagerly focused on acquiring new customers. They had inside sales reps whose goal was to close deals and others who followed up to consult with customers once they were on board.

After a while, however, they noticed a problem — high customer churn. They naturally thought that some of the post-sale consultants were underperforming. When they dug into their numbers, however, they found these consultants performed equally poorly on retention. There was little to learn from this line of

inquiry.

So they looked at the salespeople in charge of customer acquisition and found the source of the issue. Some of these reps had customer churn rates ten times worse than others! What were the low-performers doing wrong? It appeared they were onboarding the wrong customers and sometimes setting expectations too high. For an enthusiastic inside salesperson who wanted to make a good income, it made sense. Their incentives were entirely based on acquisition — they were paid two dollars upfront for every one dollar of recurring revenue. (There was a claw-back on commissions if a customer defected within four months.)

After their discovery, HubSpot reinvented their inside sales compensation plan, staggering payouts over the year to focus salespeople on the importance of retention. As an additional incentive, top-performers were paid on a curve. Those in the highest quartile received more per dollar of recurring revenues than those in the second, third and lowest quartile.

This compensation plan not only worked better for the company because customer retention increased, but it also benefited the customers. Those that adopted HubSpot were better fits for the solution. Also, they had reasonable expectations about what the solution could do for them and the amount of effort required on their part to be successful.

- **The HelpScout Story**

Acquiring the right customer is a good foundation, but often retention and growth requires post-sales support that helps customers maximize the value they derive from solutions.

For instance, HelpScout, a company that offers a help desk solution, bases their inside sales and support staff compensation on the average revenues per customer rather than the initial sale. The theory is that the company succeeds when they empower their customers to achieve more with their products. With this customer-centric compensation structure, they find that the average revenue per customer increases steadily over a customer's tenure with the company. Reps do not sign up new customers and then move on. Instead, they develop strong relationships with customers, playing the role of a valuable consultant.

Aligning Compensation Plans with Customer Retention and Growth

Companies that want to be more customer-centric, retaining and growing their existing clientele, must transition from a transactional relationship to a human, personal one in which salespeople and support staff help customers find all the

potential value in the products they offer. Upselling and cross-selling become a natural result of getting to know the customer better, understanding their problems and seeking ways to resolve them.

Also, with compensation structured around delighting and retaining customers, inside salespeople are more likely to support marketing initiatives that might once have been considered disruptive to their number one goal of closing sales. For example, the marketing department may want reps to promote an upcoming tradeshow, inviting customers to the booth or a party they are holding there. Since customers will learn about the solutions firsthand and develop a deeper relationship with the company, doing so supports customer retention and growth. Thus, it will likely increase customer lifetime value, helping reps to earn commissions and bonuses and encouraging them to support the initiative.

Can One Compensation Plan Work for the Whole Sales Cycle?

In structuring your incentives, you may find it challenging to incorporate the complete sales cycle in a cohesive program. Does it make sense for your inside sales reps to qualify leads, close sales and retain customers? If not, you might want to consider outsourcing part of the sales cycle, such as lead qualification. That way you can keep your team focused on who they bring into the fold and making sure those customers stay with you and grow.

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