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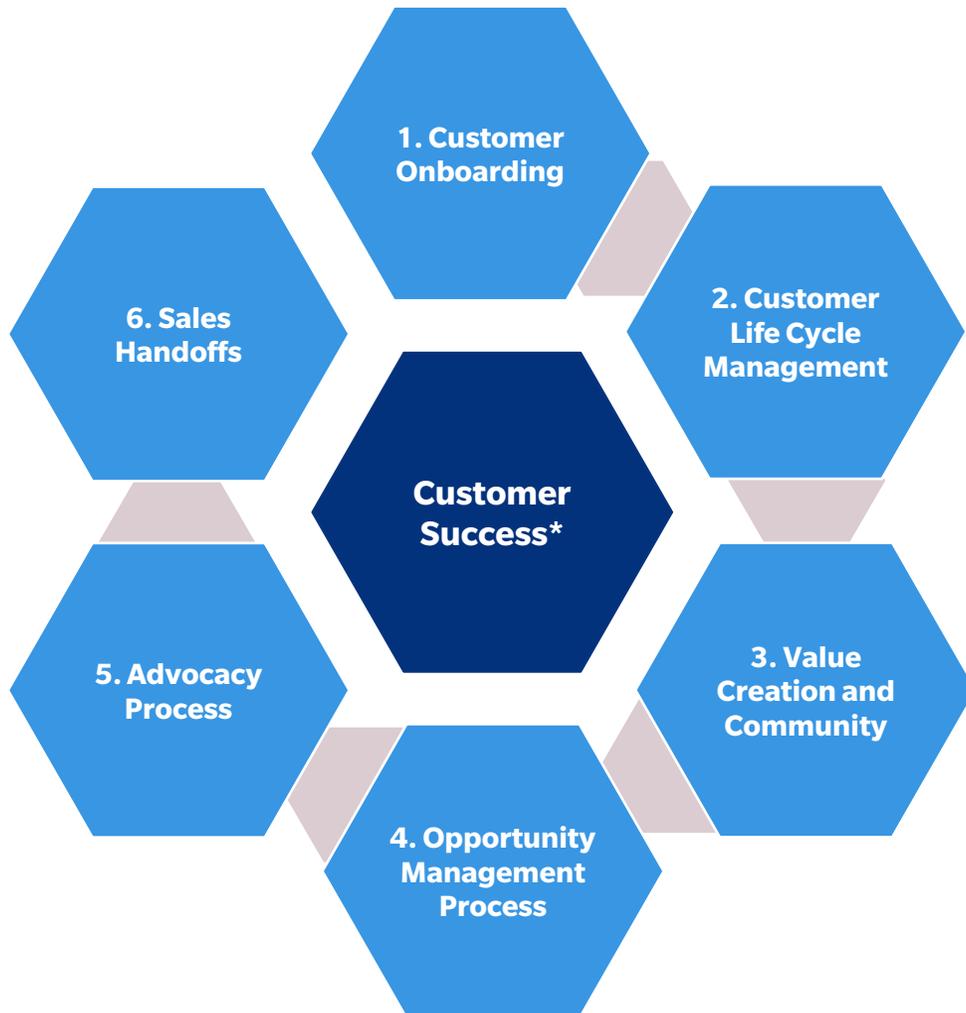
Leading Practices for Customer Success Compensation

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This tool outlines SBI's leading practices and guidelines for designing compensation plans for customer success managers (CSMs) working in a B2B environment. The slides are as follows:

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CSMs drive value across six core functions



1 Customer Onboarding

During the initial onboarding period, best-in-class CSMs properly introduce new customers to products, functionality and best practices.

2 Customer Lifecycle Management

CSMs must understand the customer lifecycle and the key leverage points to orchestrate.

3 Value Creation and Community

Throughout the customer lifecycle, it's pivotal to identify, generate, and communicate the value the product portfolio creates.

4 Opportunity Management Process

An opportunity management process is built to uncover additional sales opportunities.

5 Advocacy Process

Successful relationships should be leveraged to generate references and referrals both internally and externally.

6 Sales Handoffs

Ensure a consistent transition of accounts into sales, guaranteeing consistent support for high opportunities.

*Note: Customer success operations and the associated tech stack are included as foundational elements.

Effective compensation plans are measured by the following

Qualities

- Intuitive to understand, implement, and communicate.



Simple

Aligns with corporate objectives



- Drive desired sales force behaviors.
- Are aligned and coherent with the messages of corporate strategy.
- Ensure compatibility with the culture and sales force effectiveness (SFE) drivers.

- They continuously motivate employees to elevate their performance and focus their efforts efficiently.



Strong pay for performance culture

Fiscally responsible



- They adhere to a set budget, safeguard against predictive errors and market uncertainty, and minimize overhead and administration costs.

- Provide equal compensation opportunities for all.
- Sales force perceives compensation to be fair.



Fair

Pays for performance



- Reward solely based on achieved outcomes.
- Accounts for results not attributable to sales force efforts.

- They follow a standardized method, have minimal changes as well as a uniform approach for all.



Structured

Flexible



- They can be tailored with frequent adjustments and personalized to specific needs.

How to determine eligibility for sales incentive compensation



Identify the nature of the selling environment to guide decisions.



Core Roles



What's the interaction type?

Do they initiate or respond?

What is their relationship to the buyer?

Is the role eligible for sales incentive compensation?

Customer-facing role

Proactive – Salesperson initiates interaction with client through cold-calling, sending promo materials, or reaching out to leads.

Reactive – Salesperson responds to inquiries or requests, i.e., providing product details or troubleshooting clients' issues.

Persuades influencers

Initiates vs. responds

Supports/troubleshoots

Persuades buyer

Takes orders

Direct sales

Indirect sales (customer success motions)

Product or service support

Cross-sell and up-sell

Customer service

Yes

Yes

N/A

Yes

No

Evaluate your CSM's compensation from these three perspectives

| Competitive Alignment | | Market Considerations | | Plan Effectiveness | |
|--------------------------|--|-------------------------------|---|--|---|
| Eligibility | Target Pay Levels | Upside Opportunity | Measures & Weights | Quotas & Crediting | Payout Timing & Perf. Period |
| Eligibility | Who should be eligible for sales compensation, versus other forms of variable pay? | Upside Opportunity | Are leading performers sufficiently rewarded in comparison to their average and underperforming counterparts? | Quotas & Crediting | Are guidelines clear on how sales personnel are credited for specific sales and how sales targets are allocated? |
| Target Pay Levels | How does base salary and on-target earnings, earned at target performance, measure up against the market? | Measures & Weights | Have the right performance measures been selected to align with the overall corporate strategy? Are they controllable by CSMs? | Payout Timing & Performance | Does the compensation schedule ensure timely cash flow and align with pay structures, compositions, and performance criteria? |
| Pay Mix | Is the distribution of on-target earnings balanced between fixed (base salary) and variable compensation for the sales role? | Plan Mechanics | Do the compensation structures, including thresholds and excellence benchmarks, foster a culture that emphasizes performance-based pay? | Administration | Are the plans simple and easy to understand? Is plan execution, including processes, systems, and metrics, effective and efficient? |

SBI's Perspective

- The CSM's pay mix should align more closely to that of an account manager. It should also more conservative than for those who are tasked with new logo acquisition.
- Common performance measures include customer revenue retention, cross-sell/upsell, and customer satisfaction (CSAT) Scores; measures should relate back to the strategic objectives.
- Organizations are advised to cap performance measures to three, with each accounting for at least 20% of the opportunity to drive focus. The use of discretionary metrics is discouraged.
- Effective plan administration includes communication materials, plan documents, FAQ sheets, and compensation calculators to clarify individual incentive structures.

How to determine the appropriate mix of base salary and variable incentive

| Pay Mix Guidelines | |
|---------------------------------------|--|
| Prioritize Base Salary When: | Prioritize Incentives When: |
| Emphasis on relationship management | Emphasis on account acquisition |
| Longer sales cycle | Shorter sales cycle |
| Selling is more of a team effort | Influence on sales process is high |
| Product complexity is high | Job requires high level of skill |
| Product requires minimal sales effort | Brand awareness is low/competition is high |
| Job includes many non-sales duties | Product price is high versus competition |



These factors influence incentive eligibility and pay mix:

| Low Prominence | Factors | High Prominence |
|-------------------|---|--------------------|
| High | Market Share | Low |
| Finite | Market Size | Infinite |
| High | Customer Acceptance of Product | Low |
| Repetitive | Sales Message | Tailored |
| High | Sales Support & Service Responsibility | Low |
| High | Non-Selling Activities | Low |
| Frequent | Team Selling | Never |
| Low | Risk Taking | High |
| Defined | Customer Profile | Undefined |
| Farmers | Job Definition | Hunters |
| Few | Number of Accounts | Many |
| Indirect | Channel Configuration | Direct |
| Low | Control Over the Sale | High |
| Low | Control Over Sales Volume | High |
| Long | Length of Sales Cycle | Short |
| High | Close Rate | Low |
| Low Incentive Mix | | High Incentive Mix |

How to determine effective performance measures and weightings for the organization

Performance Measure Guidelines

| Criteria | Description |
|-------------------|---|
| Specific | Clearly define expectations for the CSMs. |
| Measurable | Use specific criteria for progress tracking and ensure company-wide understanding. |
| Attainable | Set challenging but realistic targets. Aim for over 50% of salespeople to achieve them. |
| Relevant | Align metrics with the company's objectives, emphasizing financial targets related to sales strategy. |
| Timely | Allow CSMs to have an influence within a specific time frame (e.g., yearly, quarterly). |

Performance Measure Principles

| Principle | Description |
|---|---|
| Objective vs. subjective | Objective measures typically drive better behavior. However, some situations like long sales cycles or team-selling might be exceptions. |
| Activity-based vs. financial-based | Prefer metrics related to financial targets unless in cases like lengthy sales cycles. |
| Absolute vs. quota | While fixed targets are straightforward, quotas can motivate behavior better, especially when considering the uniqueness of startups or specific sales territories. |
| Individual vs. team performance | Individual targets tend to motivate more. However, certain scenarios, like issues with quota distribution, might be challenging. |
| Discrete vs. annual performance | Yearly performance metrics are simpler and pose less risk. However, some businesses with hard thresholds or high seasonality might be exceptions. |

By the Numbers for Variable Comp

SBI recommends no more than three performance measures. For roles with lower on-target earnings and conservative pay mix roles, consider fewer measures to driver greater focus.

**3
Measures**

**20%
Weighting**

Each metric should have a weightage of at least 20%. This ensures that there is a substantial incentive for desired behaviors.

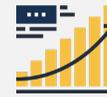
SBI's recommendations for CSM compensation

Variable Compensation

- Comprises 0-35% of total pay.
- Focused on three primary metrics evaluated quarterly:
 - Retention revenue rates, cross/upsell, and CSAT.
- Goal: 80% of CSMs should hit 20%.



Retention Revenue Rates



Cross/upsell



CSAT

Fixed Compensation

- Accounts for 75% of total pay.
- Evaluated during annual review.



Individual Performance Scorecard (Activity-Based)

Company Goals

- Represents 5-10% of total pay.
- Evaluated annually.



Company Goals

Impact of having team-based targets for CSMs instead of individual performance targets

| Challenges with Team Targets | Consequences |
|---|---|
| Obscures individual CSM performance | <ul style="list-style-type: none">• Requires indirect or subjective measures for performance assessment.• Leads to potential unfairness: Top performers might be under-rewarded while underachievers might be over-compensated.• This method does not emphasize a performance-driven culture. |
| Mitigates the efficacy of accelerators | <ul style="list-style-type: none">• Team targets are inherently, making it harder for individual CSMs to achieve the required percentages for accelerators.• Significant attainment can occur just by leveraging team members, especially without set thresholds. |
| Lack of transparency in compensation | <ul style="list-style-type: none">• Maximum incentive can only be fully realized if CSMs can directly correlate their actions with their compensation.• Without clear individual metrics, evaluations become more reliant on subjective opinions. |
| What SBI Observes | <ul style="list-style-type: none">• Team-based targets are often a last resort.• They're typically used when CSMs oversee a vast group of lower-tier clients without specific individual tasks. |