

Structuring your Sales Compensation Plans for RMR Growth

Building a sales compensation plan that rewards sellers for driving recurring revenue are essential to growing your managed service platform. Yet, many integrators have not made changes that create enough rewards for the sales team. A high-performing sales team member will look at their compensation plans and focus on areas that give them the most reward for their efforts.

The effort to drive your managed service platform must be considered when building a compensation plan. Many integrators pay similar or less commission per revenue dollar for managed services, even though the managed services produce almost double the amount of margin and create nearly 3x more value for your integration organization.

Let's consider the illustration below for an average managed service contract at \$20,000 per year at a 55% margin over the contract's life.

This illustration is an example commission structure for an RMR-driven organization. There are a couple of critical components to consider:

Managed Service Commission Payout Example

Average contract of 20K/year @ 55% margin	Revenue	Margin	Booking Commission (7% of 1st year booked Margin)	Ongoing Payout (2% of recognized MS revenue)
Year 1	\$ 20,000.00	\$ 11,000.00	\$ 770.00	\$ 400.00
Year 2 (5% escalation)	\$ 21,000.00	\$ 11,550.00	0	\$ 420.00
Year 3 (5% Escalation)	\$ 22,050.00	\$ 12,127.50	0	\$ 441.00
Total Commission Paid over 3 years				
Total 3 year Contract numbers	\$ 63,050.00	\$ 34,677.50	\$ 2,031.00	
Total Margin after commission	\$ 32,646.50			
Commission % of Revenue	3.22%			
Renewal Event for 3 additional years				
Year 4 (5% Escalation)	\$ 23,152.50	\$ 12,733.88	\$	\$ 463.05
Year 5 (5% Escalation)	\$ 24,310.13	\$ 13,370.57	\$	\$ 486.20
Year 6 (5% Escalation)	\$ 25,525.63	\$ 14,039.10	\$	\$ 510.51
Total Commission Paid over 6 years				
Total 6 year Contract numbers	\$ 136,038.26	\$ 74,821.04	\$ 3,490.77	
Total Margin after commission	\$ 71,330.28			
Commission % of Revenue	2.57%			

Booking Commission: Rewarding sellers on the front end of an opportunity is vital due to the additional effort it takes to tie a managed service contract to a project. The customer knows they need to complete the project, but they might not know that they also need a contract to maximize the value of the project. The seller will need to understand the customer's business objectives and educate them on how the agreement will help them accomplish them.

We recommend paying a percentage of a managed service contract's 1st year of booked margin. We used 7% of the 1st year booked margin in this three-year contract example as a booking commission payout.

- If contracts are longer or shorter, you should adjust the booking payout. Longer-term contracts, if set up correctly with escalations, will bring in better margins and won't need to be re-sold each year, and as a result, should have a higher up-front commission payout.

Recognized Revenue Commission: This is the ongoing annuity stream your sellers receive on a monthly or annual basis for the recognized managed service revenue they manage. A commission mechanism like this encourages excellent customer experiences, high renewal rates, and continued growth within accounts. This structure also creates a sales team retention incentive. If a veteran sales professional has a large book of managed services that pay them an annuity stream, it will be hard for them to leave that position for other opportunities. Also, when hiring new sales professionals, they could assume the current base they are taking over and have the potential to make a higher income quicker. This reduces the need to pay higher upfront salaries for sellers, which generally work against integrators' objectives.

- We used 2% of recognized annual revenue as a payout for this example. Over the three years of this contract, it produced another \$1,261 of commission for the seller and encouraged them to renew for another three years.
- You will also note that we recommend not paying out another booking commission on renewal. This goes back to the effort, and if your organization's operations team is delivering a great experience, you should experience a 90% renewal rate on contracts. Sellers continue to get their annuity stream, and their annuity increases each year as it escalates.

As you look at the financial implications of this model, in the first three years of the contract, the commission will be 3.22% of the managed service revenue. The crucial area to focus on is the margin in this example; while the percentage of revenue is slightly over 3%, these efforts generated nearly \$75,000 in margin for your organization, and if you evaluate the lifetime value of that first interaction, the returns are even higher for your organization.

Let's now compare that same managed service contract to a typical project over six years.

Project VS Managed Service Commission

	\$100,000 Project at 35% Margin	\$20,000 Per year Managed Service Contract with 5% Escalation Per Year	Notes
Total 6 year revenue	\$100,000.00	\$136,038.26	
Total 6 Year Margin	\$35,000.00	\$74,821.00	See Example Commission Payout for margin calculations
Booking Commission	\$1,750.00	\$770.00	5% of booked margin on project payout This would be higher with new business
2% of recognized revenue payout	\$0.00	\$2,720.77	
Total Commission payout	\$1,750.00	\$3,490.77	
Commission % of Revenue	1.8%	2.6%	
Commission % of Margin	5.0%	4.7%	As a % of Margin, paying out the higher amount of commission for a RMR contract is lower than what you would pay for a similar project. You also generated \$39K additional in Margin over 6 years vs the project

As you can see from this comparison, the managed service contract will pay out 44% more as a percentage of every dollar of revenue. Still, each dollar of commission paid out generates 6% more to your organization's bottom line.

The other primary consideration is if these two are sold simultaneously, which would be ideal. Suppose your compensation plan encourages closing managed service contracts with a project. In that case, it drops the commission percentage of revenue down to 2.22% and the margin percentage to 4.77% for the entire \$236,038 of revenue in six years.

When building a compensation plan to support your managed service platform, the final consideration is how you will drive Subscription or leasing services. Again, we need to return to the effort in using this solution to solve customers' business objectives. Below is the same managed service contract and project as a subscription.

In this scenario, we sold a Lease Subscription for five years with the Managed Service contract bundled in. We used the same margins from the previous examples, but we have your leasing provider's added margin of the lease bonus points. (Work with your leasing provider to go through how to structure your lease bonus points, we used 5% as an example for this scenario, but as this becomes second nature, you should increase bonus points)

For this solution, we paid the sales rep the same for the project and managed services but then rewarded them for the extra effort of moving the customer to the subscription by paying the 15% of the lease bonus points. The seller gets an additional \$750 for this project, bringing their total commission for the five years to \$5,480, and if they are working this account correctly, between months 55 and 60, they should be able to upgrade the account and get the same payment for another five years.

The commission as % of revenue stays in the 2-3 % range, but again, we drive more margin dollars per commission dollar paid.

Other Considerations When Planning for an RMR Compensation Plan

- How will you incentivize to keep your RMR Retention rate above 90%? It is critical that you track your renewal rates for managed services. If it falls below 90%, your commission payments could end up driving up the cost of sales. Not only track this

Leasing/ Subscription Commission Example

\$100,000 Project at 35% Margin with 20K Per Year MS Contract		Notes
Project Revenue Amount	\$100,000.00	
5 year Managed Service Revenue	\$110,512.63	
Lease Bonus Points (Pure Margin)	\$5,000.00	5% Lease Bonus Point Load factor as additional margin/revenue to integrator
Total 5 year Revenue	\$215,512.63	
Total 5 Year Margin	\$100,781.94	35% Project, 55% Managed Service, all of lease bonus points
Commission Payout		
Project Commission	\$1,750.00	5% of project Margin
Managed Service Commission	\$2,980.25	7% of 1st year on booking 2 % of recognized each year
Lease/Subscription Commission	\$750.00	15% of Lease Bonus points to drive this behavior or higher to jump start this business for the first 2-3 years
Total Commission	\$5,480.25	
Commission % of Revenue	2.5%	

for your company but also track by rep to determine if certain sellers are not performing good account management.

- If you incentivize longer-term contracts, you should pay less for renewals. As you build up your practice, you will likely take the strategy of paying higher amounts on booking to jump-start the business. This is a great strategy to jump-start your managed service business, but ultimately, you want to incentivize to keep the RMR you have. Once your organization adopts to selling RMR, you should consider changing your focus to the annuity stream VS upfront booking commission.
- You should use Lease Bonus points to pay for larger payouts on subscription services. This is a great strategy to keep the cost of sales low while using external funds to drive critical business objectives. Successful subscription integrators put part of the lease bonus points into a "battle chest" or "promo fund" to drive business. As you succeed with subscriptions, you should increase your "lease load" factor to continue building the fund and drive more profit to the bottom line. You should also have a different lease rate for renewal customers VS new business customers.
- You should consider the sales process of selling managed services as you create your commission plans. Critical selling points for managed service in your funnel are:
 1. Before you quote the project
 2. When delivering the project proposal.
 3. After the first project is complete.
- You want your sellers to close managed service business with a project so they don't spend time selling the same opportunity twice. Having an incentive to close Managed Services with the project is a good idea. You should also consider having a process to get additional contracts with the customer after the first project is complete, as this will allow you to grow your RMR quicker.
- Your tools for paying a commission and the level of complexity your organization can manage. If you do not have a dedicated Commission Program or a program built into your line of business software, you need to consider how complex you make your comp plans. Using the above examples requires a tool that can track commission at the time of booking and track recognized revenue tied to each seller over time. Creating complexity in comp plans can have challenges but having

different payout buckets helps sellers to prioritize the areas that most impact Margins and Company Value.

Different Types of Compensation Plans to Consider for driving RMR

There are many different sizes and types of integrators, and based on your size or the type of business you are in, you may have a slightly different revenue organization structure. Below are some of the different roles your organization might have and factors on how you might modify for these differing roles.

General Sales Executive

If your sales team members drive new business and manage existing business, you should use a blended compensation plan that pays both for booking new business and keeping renewal rates above 90%. In addition to their commission for booking projects and renewing contracts, an annual bonus for getting their book of managed service business to a certain level will help maintain the balance that this role needs. The Sales Executive is generally found in smaller organizations where it is cost prohibitive to have a business development rep and an account manager. The illustrations listed in this document are all built around the sales executive comp plan, as this is the most common role in integrators' revenue organization.

Account Manager

If your organization has separate sellers that drive new business and manage existing accounts, having a plan for the account manager to renew contracts is critical. This role may not have any up-front booking incentive but may have a higher annuity stream and an annual bonus to get their contracted revenue to a certain level.

Business Development

If your organization has separate sellers for new business and account management, the business development group should have a compensation plan for managed services that drives them to get new RMR contracts. This would entail a higher percentage on booking, and then after they hand it off to an account manager, the annuity stream may be slightly smaller since you are paying the account manager for the long-term account profitability.

Construction Sales Executive

Many integrators don't feel they can sell managed services in the construction market, but this is a missed opportunity for a captured audience. If you don't have a service sales team, the construction sales executives should be able to close managed services as the project completes. If you have a service sales team, the construction sales executives should have a payout on the service contract booking as a SPIFF for bringing in the project and setting up the service sales team.

Service Sales Executive

The service sales team could come in many different roles. This can range from inside sales to an outside salesperson. These roles generally are an entry point into selling for your organization. If you teach a new person to sell managed services for a year or two and then move them into a project position, they will lead with what they know, managed services. Generally, this role should have a much lower salary or base than your other sellers but should be able to make higher payouts on contracts they sell and generally won't have the annuity stream. They should be able to follow up on all won or lost construction opportunities, expand existing customer contracts, and bring in new logos- leading with managed service contracts.

Engineering/Quoting Team

If your sellers are not designing or quoting, considerations should be made to ensure the quoting team has managed services as a part of their process. Also, the engineering team is generally highly regarded by customers, which makes it vital that they solve business challenges with managed services. Bonuses on the attachment of Managed Services in proposals or a target won managed service revenue is a good model for this team.

Sales Manager

Sales managers play a critical role in driving the adoption of managed services. To ensure they spend time coaching this important area of growth, giving them an override of the entire team's recognized revenue is a way to keep these leaders at the organization and focused on growing the business. This can be done by paying them a percentage of the recognized RMR revenue or quarterly or annual bonuses.

Taking time to build a rewarding compensation plan that focuses on driving new RMR business and encourages maintaining a 90% renewal rate for existing RMR contracts is a critical step in having long-term success with your managed services platform. Great sales professionals use the compensation plan as a guide to where they should spend their selling time, and if your compensation plan doesn't reflect your intentions to grow RMR, your sellers will not make the correct changes. The illustrations in this document should give your organization a starting point in creating a guide for your revenue organization.

About Revenueify

Focused on meeting the unique needs of the integration market, Revenueify helps AV, Security and IT companies communicate the value of managed services programs at the critical events in the sales process. Using a combination of data analytics, revenue processes optimization, and tactical sales coaching, Revenueify drives revenue for integrators by equipping them to sell managed services, reduce their selling expenses, improve revenue operations, and become professional revenue organizations.

Revenueify's proven system for driving managed services is now powered by the 30-year history of Corporate Sales Coaches world class sales training. This powerful combination is sure to **REV** up your revenue and help you achieve your business objectives.

If you are looking for more information on how to grow your RMR practice or **REV** up your revenue team, connect with Revenueify today to learn more about how we can help you meet your revenue objectives.

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