

Turning Sales Compensation into a Competitive Advantage

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In the hyper-competitive XaaS economy, where recurring revenue models and rapid product evolution are the norm, aligning sales compensation plans with strategic business objectives is not a best practice—it is a necessity.

As companies scale, enter new markets and experiment with AI-driven capabilities, sales compensation must evolve from an operational necessity to a growth catalyst. Yet, too many firms fall into the trap of either over-engineering plans or allowing compensation design to drift, creating costly inefficiencies. Addressing common challenges in sales compensation typically yields software companies 1-3% in incremental growth, while reducing cost.

The Fundamentals Still Matter

At its core, an effective sales compensation plan must be anchored in three principles: strategic alignment, competitiveness and simplicity. Compensation plans must align with the business' commercial



strategy, role expectations and evolving go-to-market models. Yet nearly 80% of companies admitted their plans are misaligned with strategy or role design.¹

When designing compensation plans, organizations should avoid the following common pitfalls.

	Common Pitfall	Description	Mitigation Strategy
1	Misaligned Incentives with Company Goals	Compensation plans reward activities (e.g., volume selling) that don't match strategic objectives (e.g., high-margin, subscription revenue).	Define clear business objectives first, then tie metrics directly to those goals (i.e., multi-year deals, recurring ACV, etc.).
2	Overly Complex Plan Structures	Too many variables, tiers or exceptions make the plan hard to understand and demotivate sales teams.	Keep plan design simple with 2–3 key metrics; communicate with plain language and provide real-world examples during rollout.
3	Ignoring Profitability	Incentives are based solely on revenue without considering deal margins, discounting or cost-to-serve, leading to unprofitable growth.	Include payout gates or hurdles tied to renewals for hybrid sellers; set new business goals at 4-5x OTE; limit discounting.
4	Ignoring Role-Specific Metrics	Applying the same targets to all sales roles without accounting for differences (e.g., AEs vs. CSMs).	Customize metrics and weightings for different roles—e.g., new logo acquisition for AEs, net retention for CSMs.
5	Not Paying for Performance	Low performers receive similar compensation as high performers due to flat or poorly tiered incentive structures.	Implement tiered accelerators for exceeding quota and ensure underperformance results in proportionally lower earnings to reinforce performance culture.
6	Underestimating Impact of Product/Market Changes	Plans remain static despite major changes in product focus, pricing or GTM strategy.	Schedule quarterly or semi-annual reviews of compensation plan effectiveness, with the flexibility to adjust KPIs mid-year if needed.
7	Poor Communication & Transparency	Sellers don't fully understand how they're paid or how commissions are calculated.	Conduct structured training sessions, provide a commission calculator tool and send monthly statements that clearly show payout breakdowns.

¹ [Is Your Sales Incentive Plan Reaching Its Full Potential? Driving Revenue With Better SPM Structures](#)

Strategic Levers for High-Performance

Sales compensation should be viewed as a strategic investment, not just an expense. To unlock this potential, several critical shifts are required, particularly in XaaS environments.

- 1. Pay for Outbound, Proactive Motions**
Inbound-driven growth is no longer enough. XaaS firms that reward outbound deals see higher close rates and faster deal cycles. Compensation structures should reflect the increasing value of proactive selling, including net-new prospecting, selling new modules and executive-level engagement.
- 2. Incentivize the Right Future, Not Just Today's Bookings**
As emerging technologies like AI, observability and workflow automation mature, sales teams must be nudged toward selling beyond core SKUs. Compensation plans should include multipliers or SPIFFs for expansion into strategic product areas.
- 3. Incorporate Market Headwinds**
High interest rates, trade barriers and pricing pressure are real. Compensation models must flex with these dynamics. This could mean added accelerators, SPIFFs or quota adjustments. GTM models must be able to adapt to a changing market.
- 4. Drive Post-Integration Alignment**
Sales incentives are a key lever to drive alignment across companies post-acquisition. After acquisition, it's important to confirm that sales motions and objectives are not contradictory, and to incentivize cross selling and collaboration. While plans may not be fundamentally changed mid-year, small tweaks should be made to reduce immediate friction.
- 5. Attract The Top Talent, Not the Average**
Hiring average talent produces average results. Strategic compensation plans should differentiate through aggressive accelerators and meaningful OTEs (On-Target Earnings) that attract high performers. Research shows top-quartile sellers in tech outperform peers by 2.05x to 3.5x in quota attainment.² Designing plans that appeal to them is essential for establishing a high-performance culture.
- 6. Make Compensation a Living Strategy**
The best plans are tested quarterly and refreshed annually, but designed well before Q4. Rushed compensation planning is a recipe for misalignment. High performing companies begin modeling for next year's compensation structure by Q2 to allow for scenario testing and leadership alignment, preventing end-of-year chaos.

² [What is the Performance Gap Costing Your Business Each Year?](#)



The Call to Action

XaaS firms that treat sales compensation as a strategic lever rather than a static tool outperform. They attract better talent, accelerate innovation adoption and navigate market volatility with confidence. If your organization's compensation plan is not delivering measurable outcomes like growth, retention, attach rate or pipeline, it is time to reevaluate.

The path forward is clear: align with your strategy, simplify aggressively and plan proactively. Begin your compensation strategy review today and make it a cornerstone of your growth engine—not an afterthought.

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