



30 Questions & Answers That Every SaaS Revenue Leader Needs to Know

*Marketing, Sales and Service Best Practices
for Cloud-based Businesses*

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INTRODUCTION

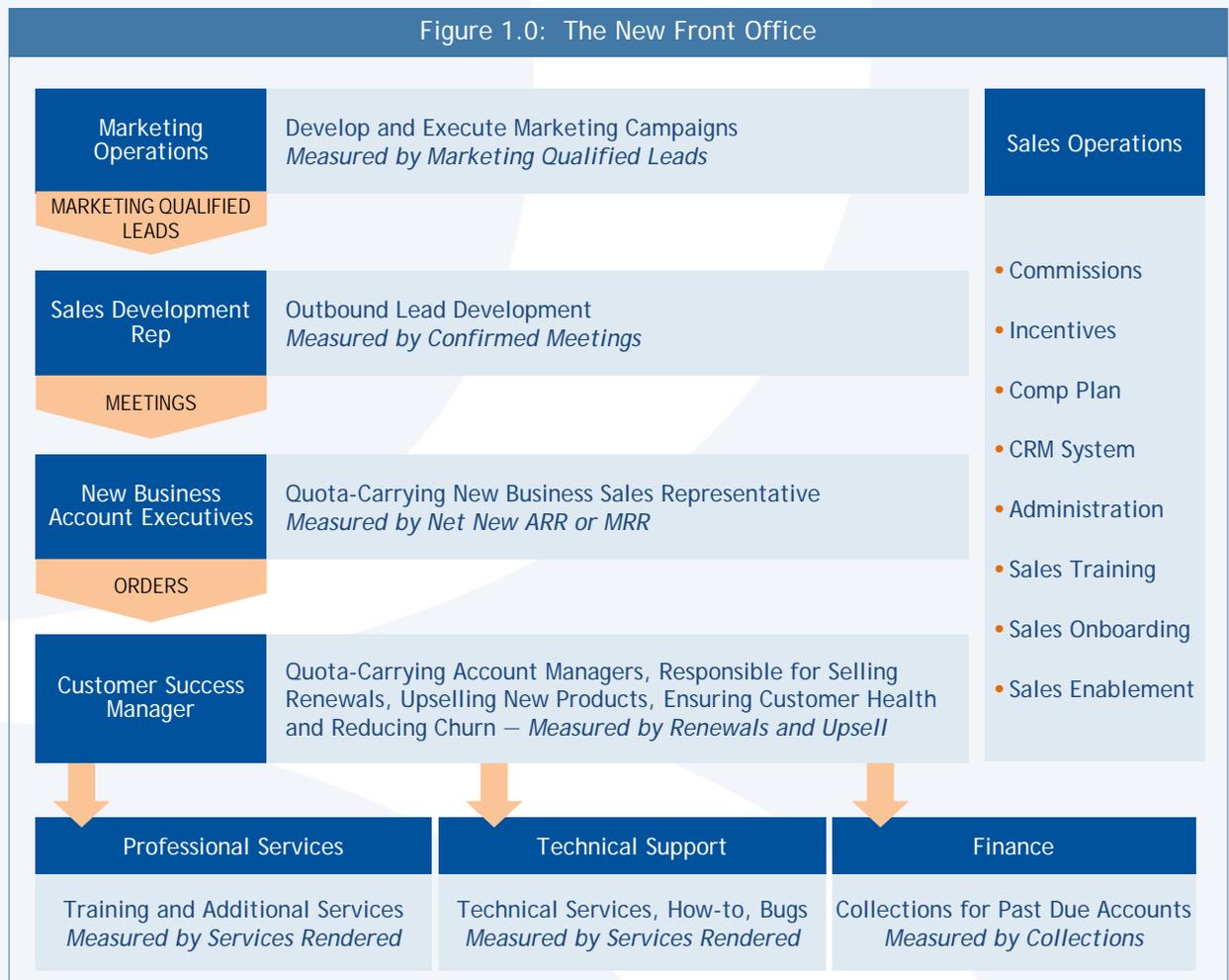
Leading and scaling a cloud-based subscription business has never been more challenging. For years, marketing, sales and technical support functioned in organizational silos. Now, they must work in a fully aligned and integrated manner, with shared incentives, meticulous coordination of objectives and carefully balanced staffing ratios.

Bessemer Venture Partners is pleased to present the results of the 2013 Sales Operations Survey, a study of more than 100 data points found within the most successful cloud-based businesses. This year's survey explores the drivers, metrics, staffing ratios and dependencies of each customer-facing function, from sales and marketing to customer success.

Our survey focuses on U.S.-based, enterprise-focused subscription businesses with an average annual contract value of \$26,000 and often, eight core front office functions described below:

- **Marketing Operations** develops and executes outbound campaigns.
- As prospects respond to those campaigns, **Sales Development Reps (SDR's)** qualify opportunities and book meetings for their counterparts...
- **Quota-Carrying New Business Account Executives** who sell subscriptions and strive to exceed their quota.

- After an opportunity is closed, **Customer Success Managers** step in to manage the ongoing customer relationship, selling renewals and often, new products.
- Customer Success Managers serve as bridges to additional functions, including **Technical Support**, **Professional Services** and **Finance**.
- Finally, **Sales Operations** manages and maintains the infrastructure, processes and systems for the front office.



Listed below you'll find the questions and answers that every SaaS revenue leader needs to know in order to fill pipeline, accurately and reliably close new subscriptions and renew customers while minimizing churn.

Table 1.0 Key Operating Figures

		Sales Development Reps (SDR's)	Account Executives (AE's)	Customer Success Managers
1	Primary Function	Contact prospects who have inquired about products (inbound) and identify opportunities (outbound)	Qualify, forecast and close new subscriptions from inside sales or field	Sell renewals, ensure customer satisfaction and often, provide level one support and upsell new service subscriptions
2	Performance Metric	Meetings scheduled for Account Executives	Net new ARR (50%) or MRR (50%)	Net new ARR/MRR from: <ul style="list-style-type: none"> • Renewals (57%), • Customer satisfaction (57%) • Customer engagement (28%)
3	Staffing	3 SDR's for every 10 Account Execs	N/A	2 Customer Success Managers for every 10 Account Execs
4	Reporting Structure	Director of Sales	Director of Sales, Chief Revenue Officer, VP of Sales	Director of Accounts
5	Organization Framework	Geography (70%)	Geography (70%)	Named Accounts (57%)
6	New Accounts per Rep	60 Calls to Prospect Accounts per Day	6 New Accounts per Rep per Quarter	37 Account Renewals per Quarter
7	Quota	60-75 Meetings per Quarter	\$181K per Quarter in ARR (inside sales), \$300K per Quarter in ARR (field sales)	TBD
8	Incentive / Commission	\$103 bonus per meeting scheduled	10% (inside), 9% (field)	TBD
9	Average Compensation	\$75K On-target-earnings; \$48K (64% base) + \$27K (36% variable)	Inside sales—\$142K On-target-earnings; \$71K (50% base) + \$71K (50% variable) Field sales— \$208K On-target-earnings; \$103K (49% base) + \$105K (51% variable)	\$102K On-target-earnings; \$68K (66% base) + \$34K (33% variable)
10	Compensation Range	Base: \$40-60K Variable: \$11K-\$50K	Inside sales—base (\$48K-\$105K), variable (\$48K-\$102K); Field sales—base (\$80K-125K), variable (\$100K-\$125K)	Base (\$40K-\$100K), variable \$0-\$60K
11	Commission on Multi-Year Subscriptions	Not Applicable	100% of standard commission rate on Year 1, 60% of commission rate on Year 2, 40% of commission rate on Year 3	No
12	Commission on Professional Services	Not Applicable	Yes, paid at same Commission Rate as subscription, but often capped at 50% of annual subscription	Yes, for training and occasionally, pre-defined services engagements
13	Commission on Subscriptions Shorter Than 12 Months	Not Applicable	Yes, although Commission Rate reduced with shorter subscription term <i>(i.e. six-month term pays 50% of Commission Rate on annual subscription term)</i>	No
14	Commission Payment Policy	Monthly bonus payments	Within 45 days of order acceptance (50%), within 30 days of cash collection (33%)	Quarterly commission and bonus payments
15	SPIFS	Higher bonus for meetings confirmed with executives at strategic accounts	Exceed monthly target by 20th day of each month; get customer to agree to a case study, press release, etc.	Get customers to promote product/service endorsement in their social networks

DEMAND GENERATION AND SALES DEVELOPMENT REPS

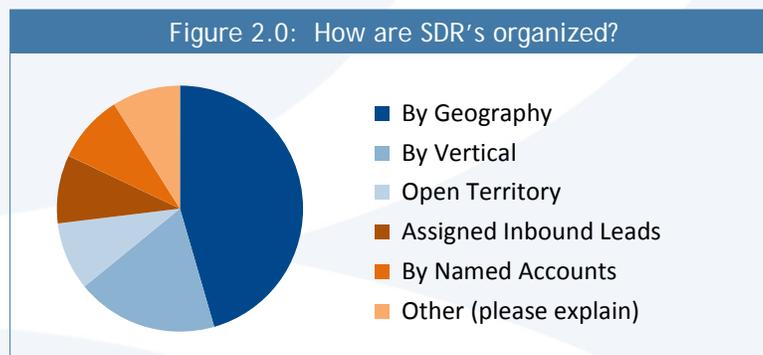
1. What are Sales Development Reps?

Ninety percent of cloud-based businesses employ sales development reps (SDR's) for inbound and outbound demand generation. They call and email prospects who have inquired about products and services (inbound demand generation) and many place outbound calls looking for opportunities (outbound demand generation).

Most companies compensate SDR's for confirming meetings on behalf of new business account executives. On average, each SDR is expected to confirm five meetings per week, or 21 per month.

2. How should I organize SDR's?

The majority of companies organize SDR's by geography, a third by vertical industry and the remainder organize by named accounts, route inbound inquiries at random or maintain open territories.



3. How should SDR's spend their time?

The survey revealed that 43 percent of an SDR's contact time is spent communicating with "warm prospects that have some familiarity" with the SaaS solution, 20 percent with "hot prospects that have requested a call" and 37 percent with "completely cold prospects."

4. But not all prospect meetings are created equal. Many revenue leaders ask, How do I provide SDR's with incentives so they're motivated to book meetings with high value prospects (decision-makers in target accounts, for example)?

Some measure SDR performance with monthly or quarterly points-based quotas; SDR's receive points for booking different types of meetings. For example, lower value meetings—such as confirmed phone calls with managers—receive fewer points than higher value meetings—such as a face-to-face meetings with an executive at a target account.

4. *(Continued)*

If an SDR is expected to book 20 meetings per month, he or she may have a quota of 40 points. A web-based conference with a manager at a small business may qualify for one point, but a face-to-face meeting with a vice president at a *Fortune 500* corporation may qualify for three points.

5. **How much should I pay SDR's?**

The survey suggested SDR's receive on average a base salary of \$48,500 (range \$40,000–\$60,000) and annual variable compensation of \$27,679 (range \$11,250-\$50,000) for annual on-target-earnings (OTE) of \$76,179.

6. **How many SDR's should I hire?**

Most companies hire one SDR for every three quota-carrying new business sales reps.

7. **Who should SDR's report to?**

Often SDR's report to the chief revenue officer or head of sales; occasionally they have "dotted line" reporting structure to the chief marketing officer.

8. **Are there other titles for sales development reps?**

Yes, SDR's are often called account executives, corporate sales reps and sales specialists.

**PART
2**

NEW BUSINESS AND QUOTA-CARRYING ACCOUNT EXECUTIVES

9. **What are quota-carrying new business account executives?**

Quota-carrying new business account executives are sales reps that qualify, forecast and close new business on behalf of your company.

While some new business account teams are based in the field, two-thirds of SaaS-based new business account teams work in sales call centers. Our survey noted that 66 percent of SaaS companies employed inside sales-based teams with an average of 16 reps. The remainder staffed outside field-based sales teams with an average of 13 reps.

10. How much should I pay new business sales reps?

According to the survey, inside sales reps have on-target-earnings of \$142,000 per year, split evenly between a base of \$71,000 (range \$48,000–\$105,000) and variable compensation of \$71,000 (range of \$48,000–\$102,000).

On average, field-based sales reps earned \$208,000 in on-target-earnings per year with \$103,000 in base salary (range \$80,000–\$125,000) and \$108,000 in variable compensation (range \$100,000–\$125,000).

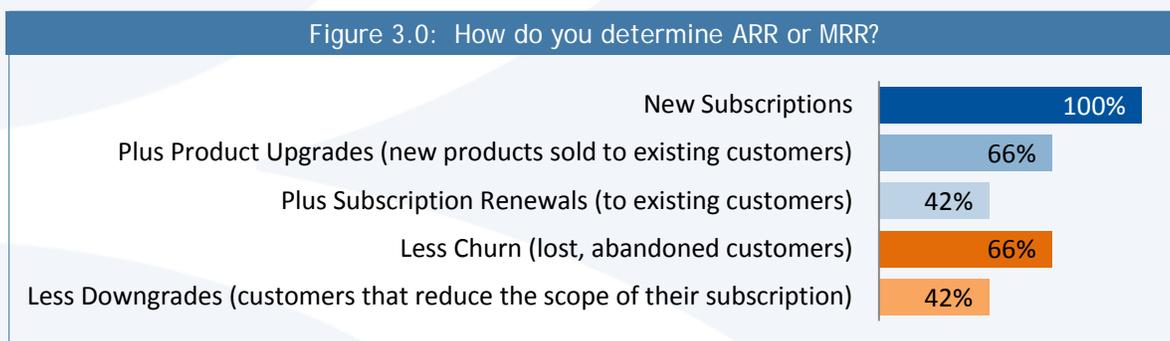
11. What metric should I use to measure success?

Half listed ARR (Annually Recurring Revenue) as the key metric in measuring new business success; the remainder cited MRR (Monthly Recurring Revenue) as the primary driver.

12. When using ARR or MRR as a key metric for quota-carrying new business sales reps, how are those figures defined?

All companies start with the monthly or annual value of net new subscriptions (MRR or ARR), then 66 percent add net new product upgrades (that is, sales of new products to existing customers); 66 percent deducted churn; 42 percent added renewals; and 42 percent deducted downgrades (or cases when customers reduced the scope of their services).

Figure 3.0: How do you determine ARR or MRR?



13. What is a reasonable expectation of performance?

The survey suggests that the average new business account executive quota is met by closing, on average, six new accounts per quarter.

For inside sales-based teams, this represents an average net new ARR of \$30,285 per transaction, or \$181,000 in ARR per quarter; this translates into 24 accounts per year and \$725,000 in net new ARR per year. Exceptional performers finished between 120 percent and 160 percent of goal.

For field-based teams, the net new ARR per transaction increases to \$51,666 in ARR or \$309,000 in ARR per quarter; this translates into 18 new accounts per year and \$1.2 million in new net ARR per year. The bar is higher for field-based teams; exceptional performers often finish at 200 percent of goal.

14. What does that mean, in terms of commission rates?

For inside sales, average commission rate is 9.65 percent on a net new ARR quota of \$725,000.

For field sales, average commission rate is 8.73 percent on a net new ARR quota of \$1.2 million.

15. Are commissions capped?

The survey noted that 33 percent of respondents capped commissions.

16. When are reps paid?

Fifty percent of respondents paid reps within 45 days of internal order acceptance; another third paid within 30 days of cash collection. 16 percent paid reps quarterly.

17. Were reps penalized if customers defaulted?

Yes, most companies that paid on internal order acceptance included conditions for claw-backs, or cases where reps were required to re-pay commissions in cases of customer default.

18. Are new business reps paid for closing multi-year subscriptions?

A third of companies paid new business reps for selling multiyear subscriptions. However, on average, reps are paid on the first thirty percent of each year's subscription ARR.

19. We sell professional services. Should I pay my reps for selling professional services?

Two-thirds of respondents sold professional services with their subscriptions. On average, one in every eight customers bought professional services with a wide range of value; the average services engagement ranged from \$10,000 to \$100,000. Most companies paid their new business sales reps at the same commission rate as new subscriptions, although a third imposed a cap such as limiting the amount of services eligible for commission to half of the value of the annual SaaS subscription; the remainder offered quota relief for the sale of services, but did not pay commissions.

20. What is the best way to organize new business account executives?

Seventy percent organized new business account executives by geography. Another 30 percent organized by vertical industry or imposed no constraints (i.e. reps in an open territory).

21. How do new business account executives spend their day?

The survey revealed that sixty-five percent of rep selling time is spent working active pipeline opportunities; 23 percent is spent with cold prospects. Less than 5 percent of their time is spent with existing customers addressing renewals or up-selling new products.

22. How are quota-carrying reps supported by sales consultants?

On average, a sales consultant or solution architect supports every five new business account executives.

23. Do SPIFs motivate new business account executives? If so, which SPIFs are most successful?

Yes, some companies offer SPIFs if reps attain monthly quota by the 20th day of the month or convert month-to-month contracts to annual contracts. Others use SPIFs to incentivize reps to recruit customers as marketing case studies or to reward good behavior, such as forwarding out-of-territory opportunities to the appropriate territory rep.

**PART
3**

RENEWALS AND CUSTOMER SUCCESS MANAGERS

24. What are customer success managers?

Customer success managers - also known as account managers - are responsible for providing Level One support, renewing customers, driving customer satisfaction and exceeding renewal quota. Some companies allow customer success managers to retire quota and receive commission for revenue resulting from up-selling new products and new users. Similarly, some companies penalize customer success managers for churn and downgrades.

25. How much should I pay our customer success managers?

The survey noted an average base salary of \$68,000 and variable of \$34,642 to reach on-target-earnings of \$102,643.

26. How many customer success managers should I hire?

The survey suggests one customer success manager for every five quota-carrying new business account executives.

27. What metric should I use to measure success?

Most companies compensate customer success managers for recurring revenue resulting from renewals (57 percent) and customer satisfaction (57 percent), although metrics tied to customer engagement (28 percent) and companywide management by objective, or MBOs (14 percent) are often factored into customer success compensation.

28. When using ARR or MRR as a key metric for customer success managers, how are those figures defined?

Most customer success managers are compensated for renewals. However, two out of three are penalized for churn (i.e. when a customer abandons service) and downgrades (i.e. when a customer reduces the scope of their service.)

Just under half of the companies compensate their customer success managers for product upgrades, selling new products and services.



29. What is the most effective way to organize customer success managers?

Customer success managers are usually organized by named accounts (57 percent), but some are organized by geography and vertical industry, and others left to chance (i.e. alphabetical order and based on inbound inquiries).

30. How do customer success managers spend their day?

Many customer success managers are the first line of customer support (30 percent of their day spent with customers on support issues), so often they escalate and route service issues to technical support; product feature requests to product management; or customization requirements to professional services. Some are also the frontline of collections, too.

On average, customer success managers spend a quarter of their day managing renewals and a fifth of their day up-selling new products and services to the installed base; about 15 percent of their day is spent addressing invoicing and billing issues.



ABOUT THE AUTHORS

Jeff Epstein, an Operating Partner in the Menlo Park, CA. office, joined Bessemer in 2011. He focuses on cloud computing, internet advertising technology, and consumer internet opportunities. Jeff most recently served as Executive Vice President and Chief Financial Officer of Oracle, one of the world's largest and most profitable technology companies, with a market value of over \$150 billion. Prior to joining Oracle, Epstein served as Chief Financial Officer of several public and private companies, including DoubleClick (sold to Google), King World Productions (sold to CBS) and Nielsen's Media Measurement and Information Group.

John Golob is a six-time start-up veteran, having held sales and marketing roles at Scopus Technology (sold to Siebel), Octane Software (sold to E.piphany), Digital Impact (sold to Axiom), Good Technology (sold to Motorola), SpikeSource (sold to Black Duck Software) and Xobni (sold to Yahoo!). Now, John works with early stage cloud-based subscription businesses, helping them reduce operational risk by aligning marketing, sales and customer success operations, comp plans and processes. John can be reached at john.golob@thenewfrontoffice.com.

To learn more about sales, marketing and service best practices—or to complete the survey yourself—log onto www.thenewfrontoffice.com.

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