

# ICONIQ

ICONIQ ANALYTICS & INSIGHTS  
***COVID-19 Impact to Sales Compensation***

*July 2020*

# ICONIQ Capital, LLC

## Disclosure

THE VIEWS EXPRESSED IN THIS PRESENTATION ARE THOSE OF ICONIQ GROWTH ("ICONIQ" OR THE "FIRM"), ARE THE RESULT OF PROPRIETARY RESEARCH, MAY BE SUBJECTIVE, AND MAY NOT BE RELIED UPON IN MAKING AN INVESTMENT DECISION. THIS PRESENTATION IS FOR EDUCATIONAL PURPOSES ONLY AND DOES NOT CONSTITUTE INVESTMENT ADVICE OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES WHICH WILL ONLY BE MADE PURSUANT TO DEFINITIVE OFFERING DOCUMENTS AND SUBSCRIPTION AGREEMENTS, INCLUDING, WITHOUT LIMITATION, ANY INVESTMENT FUND OR INVESTMENT PRODUCT REFERENCED HEREIN.

ANY REPRODUCTION OR DISTRIBUTION OF THIS PRESENTATION IN WHOLE OR IN PART, OR THE DISCLOSURE OF ANY OF ITS CONTENTS, WITHOUT THE PRIOR CONSENT OF ICONIQ, IS PROHIBITED.

THIS PRESENTATION MAY CONTAIN FORWARD-LOOKING STATEMENTS BASED ON CURRENT PLANS, ESTIMATES AND PROJECTIONS. THE RECIPIENT OF THIS PRESENTATION ("YOU") ARE CAUTIONED THAT A NUMBER OF IMPORTANT FACTORS COULD CAUSE ACTUAL RESULTS OR OUTCOMES TO DIFFER MATERIALLY FROM THOSE EXPRESSED IN, OR IMPLIED BY, THE FORWARD-LOOKING STATEMENTS. THE NUMBERS, FIGURES AND CASE STUDIES INCLUDED IN THIS PRESENTATION HAVE BEEN INCLUDED FOR PURPOSES OF ILLUSTRATION ONLY, AND NO ASSURANCE CAN BE GIVEN THAT THE ACTUAL RESULTS OF ICONIQ OR ANY OF ITS PARTNERS AND AFFILIATES WILL CORRESPOND WITH THE RESULTS CONTEMPLATED IN THE PRESENTATION. NO INFORMATION IS CONTAINED HEREIN WITH RESPECT TO CONFLICTS OF INTEREST, WHICH MAY BE SIGNIFICANT. THE PORTFOLIO COMPANIES AND OTHER PARTIES MENTIONED HEREIN MAY REFLECT A SELECTIVE LIST OF THE PRIOR INVESTMENTS MADE BY ICONIQ.

CERTAIN OF THE ECONOMIC AND MARKET INFORMATION CONTAINED HEREIN MAY HAVE BEEN OBTAINED FROM PUBLISHED SOURCES AND/OR PREPARED BY OTHER PARTIES. WHILE SUCH SOURCES ARE BELIEVED TO BE RELIABLE, NONE OF ICONIQ OR ANY OF ITS AFFILIATES AND PARTNERS, EMPLOYEES AND REPRESENTATIVES ASSUME ANY RESPONSIBILITY FOR THE ACCURACY OF SUCH INFORMATION.

ALL OF THE INFORMATION IN THE PRESENTATION IS PRESENTED AS OF THE DATE MADE AVAILABLE TO YOU (EXCEPT AS OTHERWISE SPECIFIED), AND IS SUBJECT TO CHANGE WITHOUT NOTICE, AND MAY NOT BE CURRENT OR MAY HAVE CHANGED (POSSIBLY MATERIALLY) BETWEEN THE DATE MADE AVAILABLE TO YOU AND THE DATE ACTUALLY RECEIVED OR REVIEWED BY YOU. ICONIQ ASSUMES NO OBLIGATION TO UPDATE OR OTHERWISE REVISE ANY INFORMATION, PROJECTIONS, FORECASTS OR ESTIMATES CONTAINED IN THE PRESENTATION, INCLUDING ANY REVISIONS TO REFLECT CHANGES IN ECONOMIC OR MARKET CONDITIONS OR OTHER CIRCUMSTANCES ARISING AFTER THE DATE THE ITEMS WERE MADE AVAILABLE TO YOU OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

FOR AVOIDANCE OF DOUBT, ICONIQ IS NOT ACTING AS AN ADVISER OR FIDUCIARY IN ANY RESPECT IN CONNECTION WITH PROVIDING THIS PRESENTATION AND NO RELATIONSHIP SHALL ARISE BETWEEN YOU AND ICONIQ AS A RESULT OF THIS PRESENTATION BEING MADE AVAILABLE TO YOU.

ICONIQ IS A DIVERSIFIED FINANCIAL SERVICES FIRM AND HAS DIRECT CLIENT RELATIONSHIPS WITH PERSONS THAT MAY BECOME LIMITED PARTNERS OF ICONIQ FUNDS. NOTWITHSTANDING THAT A PERSON MAY BE REFERRED TO HEREIN AS A "CLIENT" OF THE FIRM, NO LIMITED PARTNER OF ANY FUND WILL, IN ITS CAPACITY AS SUCH, BE A CLIENT OF ICONIQ. THERE CAN BE NO ASSURANCE THAT THE INVESTMENTS MADE BY ANY ICONIQ FUND WILL BE PROFITABLE OR WILL EQUAL THE PERFORMANCE OF PRIOR INVESTMENTS MADE BY PERSONS DESCRIBED IN THIS PRESENTATION.

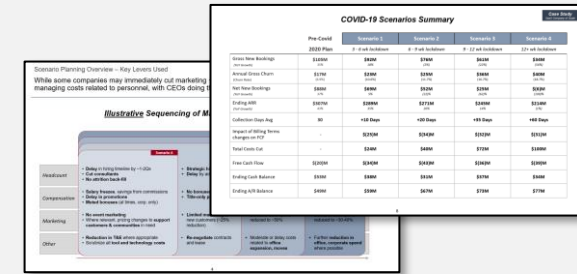
# ICONIQ Analytics & Insights - COVID-19

As organizations adjust to the rapidly changing COVID-19 environment, we wanted to share a few case studies related to how sales leaders are starting to examine and adjust their compensation strategy – the 3<sup>rd</sup> study in our multi-part COVID-19 series

## ICONIQ GROWTH ANALYTICS: COVID-19 SERIES

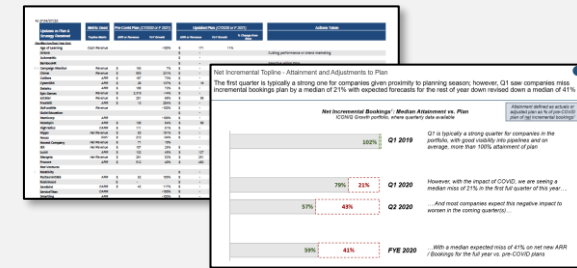
### Scenario Planning

- Learnings and best practices: creating and aligning on scenario planning and communicating resulting strategic changes
- Detailed case study: Illustrative example of what a best-practice scenario plan should look like and which factors should be considered



### Quarterly Attainment & Adjustments to Plan

- What has the impact of Covid-19 been on Q1 attainment (bookings, ARR), if at all?
- How does this factor into how companies are adjusting / evolving their Q2 and 2020 plans?
- What cost-management levers are being used at various thresholds of attainment?

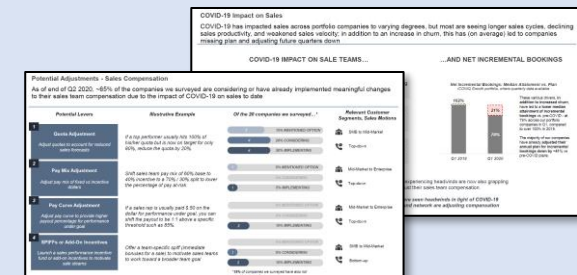


To be updated with Q2 results in August

### Focus of This Study

### Sales Team Compensation

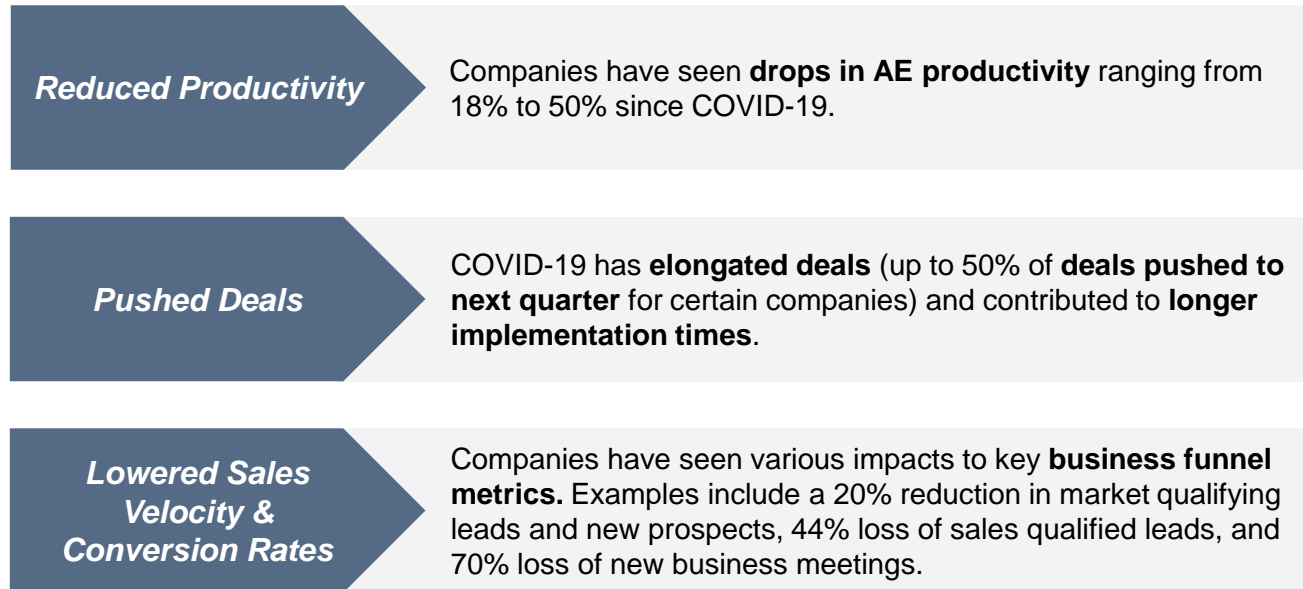
- How are we seeing companies change sales team compensation, if at all?
- What are the different levers and considerations for implementing changes?
- How do these tie to quarterly plan adjustments and relevant sales motions?



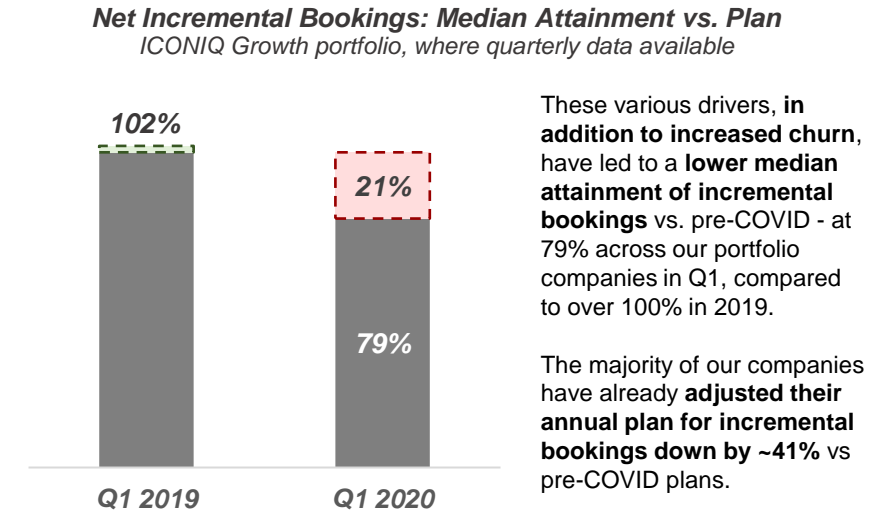
## COVID-19 Impact on Sales

COVID-19 has impacted sales across companies to varying degrees, but most are seeing longer sales cycles, declining sales productivity, and weakened sales velocity; in addition to an increase in churn, this has (on average) led to companies missing plan and adjusting future quarters down

### COVID-19 IMPACT ON SALES TEAMS...



### ...AND NET INCREMENTAL BOOKINGS



COVID-19 has impacted companies to varying degrees – those experiencing headwinds are now also grappling with questions related to if and how they should adjust their sales team compensation.

***This study will focus specifically on companies who have seen headwinds in light of COVID-19 and outline how some companies across our portfolio and network are adjusting compensation***

# Potential Adjustments - Sales Compensation

As of end of Q2 2020, ~65% of the companies we surveyed are considering or have already implemented meaningful changes to their sales team compensation due to the impact of COVID-19 on sales to date

| Potential Levers  | Illustrative Example   | Of the companies we surveyed...*                                     | Relevant Customer Segments, Sales Motions |
|---|--|--|---|
| <b>1</b><br><b>Quota Adjustment</b><br><i>Adjust quotas to account for reduced sales forecasts</i>  | <i>If a top performer usually hits 100% of his/her quota but is now on target for only 80%, reduce the quota by 20%.</i>   | <p>15% MENTIONED OPTION<br/>20% CONSIDERING<br/>20% IMPLEMENTING</p> | SMB to Mid-Market<br>Top-down             |
| <b>2</b><br><b>Pay Mix Adjustment</b><br><i>Adjust pay mix of fixed vs. incentive dollars</i>   | <i>Shift sales team pay mix of 60% base / 40% incentive to a 70% / 30% split to lower the percentage of pay at-risk.</i>   | <p>5% MENTIONED OPTION<br/>0% CONSIDERING<br/>5% IMPLEMENTING</p>    | Mid-Market to Enterprise<br>Top-down      |
| <b>3</b><br><b>Pay Curve Adjustment</b><br><i>Adjust pay curve to provide higher payout percentage for performance under goal</i>               | <i>If a sales rep is usually paid \$.50 on the dollar for performance under goal, you can shift the payout to be 1:1 above a specific threshold such as 85%.</i> | <p>0% MENTIONED OPTION<br/>0% CONSIDERING<br/>10% IMPLEMENTING</p>   | Mid-Market to Enterprise<br>Top-down      |
| <b>4</b><br><b>SPIFFs or Add-On Incentives</b><br><i>Launch a sales performance incentive fund or add-on incentives to motivate sales teams</i> | <i>Offer a team-specific spiff (immediate bonuses for a sale) to motivate sales teams to work toward a broader team goal</i>                                     | <p>0% MENTIONED OPTION<br/>5% CONSIDERING<br/>10% IMPLEMENTING</p>   | SMB to Mid-Market<br>Bottom-up            |

\*15% of 20 total companies we surveyed have also not considered any changes

# Case Study: Quota Adjustment

For companies significantly impacted by COVID-19 in Q1, a quota adjustment can be beneficial for realigning sales compensation against new business forecasts


## OPTIONS


- 1 Revise quota thresholds based on adjusted sales expectations
- 2 Implement attainment floor or buffer (e.g. reps that hit 100% of quota get 110%) to provide greater cash flow
- 3 Switch to quarterly quota attainment vs annual to allow for more flexible adjustments


## KEY CONSIDERATIONS


- A quota reduction across the board may not be required for all sales reps. Instead, consider adjustments on a case-by-case or highly targeted basis.
- Unattainable goals demoralize sales teams. Leverage your data on past annual sales team performance to set realistic targets.


## SITUATION

 **Geography:** West Coast

 **Sector:** Vertical SaaS

 **Target Customer Segment :** SMB to Mid-Market

 **Scale:** \$25 – 50M (ARR)

 **Sales Motion:** Hybrid; Top-down

**Q1 '20 Net New ARR Attainment vs Pre-COVID Plan**

48%

## APPROACH TAKEN

- 1 Company created a baseline quota that was ~50% lower than normal base quota

## Case Study: Pay Curve Adjustment

A pay curve adjustment can be another approach to align sales compensation based on COVID business expectations without requiring a wholesale quota change

### OPTIONS

- 1 Adjust payout threshold requirements for receiving incentive compensation
- 2 Adjust payout leverage (e.g. from 1:1 to 2:1)
- 3 Reward reps based on stack racking / relative performance

### KEY CONSIDERATIONS

- This may be a good time to revisit incentive caps and payout vs. performance period timing
- In addition to assessing rep performance against each other, assess where the full sales team would have landed each month pre-COVID

### SITUATION



**Geography:** North East



**Scale:** \$100M – 150M (ARR)



**Sector:** Horizontal SaaS

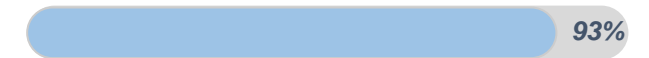


**Sales Motion:** Hybrid; Top-down



**Target Customer Segment :** Mid-Market to Enterprise

**Q1 '20 Net New ARR Attainment**  
vs Pre-COVID Plan



### APPROACH TAKEN

- 2 Adjusted pay curve by lowering hurdle to payout leverage threshold (e.g. reps get 1:1 payout after hitting 80% threshold)

# Case Study: SPIFFs or Add-On Incentives

A SPIFF or other add-on incentive program can be a great way to motivate employees and encourage desired behaviors through a challenging period and environment

## OPTIONS

- 1 Introduce a SPIFF to motivate key business goals
- 2 Introduce short-term sales contest to drive friendly competition and desired behavior
- 3 Offer spot awards such as a gift card to recognize high performing individuals

## KEY CONSIDERATIONS

- If not properly designed, SPIFFs can motivate bad behavior (e.g. drive sales but increase churn)
- Budget properly to ensure ROI of introducing the SPIFF does not exceed cost

## SITUATION



**Geography:** West Coast



**Scale:** <\$25M (ARR)



**Sector:** Horizontal SaaS

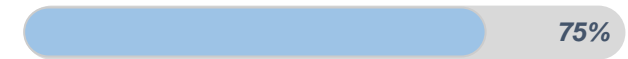


**Sales Motion:** Hybrid; Top-down



**Target Customer Segment :** Mid-Market to Enterprise

**Q1 '20 Net New ARR Attainment**  
*vs Pre-COVID Plan*



## APPROACH TAKEN

- 1 Introduced team SPIFFs for expansion opportunities and reduced Q2 quota



# Case Study: Hybrid

Sales compensation changes are highly dependent on the type of organization and resilience to the current business environment; in some cases, a hybrid model or entirely new compensation plan may be appropriate

## KEY CONSIDERATIONS

- When designing a brand new compensation plan in short time frame, align on a set of guiding principles to anchor compensation changes around
  - Generally, aim for simplicity (*both in terms of implementation and ability to explain changes to employees*)
- Offer optionality to your employees by making your new plan opt-in. High-performers and/or employees in more resilient segments (e.g. large / enterprise) may benefit from remaining on pre-COVID plans
- Examine all portions of your compensation plan beyond quotas, including chargeback policies
  - One approach to consider is to 'back-solve' for what each position on the sales team would have achieved under normal conditions, haircut appropriately given new circumstances, and then use various levers to try and achieve 'goal' compensation under average performance

## SITUATION



**Geography:** West Coast



**Scale:** \$150M+ (ARR)



**Sector:** Vertical SaaS



**Sales Motion:** Hybrid; Top-down



**Target Customer Segment :** Mid-Market to Enterprise

**Q1 '20 Net New ARR Attainment**  
*vs Pre-COVID Plan*






## APPROACH TAKEN

- Rolled out brand new compensation plan given COVID impact to back-solve for a goal compensation under current circumstances, including moving to a fixed rate for sales teams (~70% of OTE)
- Reconsidered chargebacks for de-bookings and lowered floor for install base commissions given higher churn

## Additional Levers: Sales, Marketing, GTM

Sales compensation changes should be considered in parallel with customer-facing changes to pricing, promotions, and GTM strategy; while this study is primarily focused on internal changes to sales compensation, many of these changes will come hand-in-hand with external, customer-facing adjustments as well

### Additional Levers To Address COVID-19 Impact to Sales

|   |   |
|---|---|
| <br><b>Payment Terms</b>            | <p>Many companies have seen an increase in requests for more <b>flexibility related to payment terms</b> (and have generally accepted requests), including <b>increases in number of payments per year, increase in invoicing term length, invoicing pauses with service pause</b>, etc.</p> <p>In the short term, companies will have to make important decisions around <b>cash flow vs. conversion rates</b></p> |
| <br><b>Pricing &amp; Promotions</b> | <p>Prioritizing retention and a solid customer base over dollars per customer may be required to weather the crisis and sustain growth. Many companies have considered <b>promotions such as adjusting first-year pricing, free trials, and other rebates</b></p>   |
| <br><b>Go-To-Market Strategy</b>  | <p>Some companies are also using this opportunity to make broader GTM changes such as <b>leaning into existing customers</b>, focusing on <b>new customers less impacted</b> by the crisis, focusing on <b>time to value</b>, and streamlining <b>key processes</b>.</p> <p>This, in turn, sometimes requires <b>shifting marketing spend, creating a new sales playbook, and operating model changes</b></p>       |

### Illustrative Example

*A horizontal SaaS company saw a 25% increase in requests for payment term adjustments post COVID-19*

*A consumer company introduced free product access to certain communities impacted by COVID-19*

*A vertical SaaS company recently launched a new GTM strategy to combine its core competencies with relevant business needs for furloughed workers to better engage Fortune 500 companies*

*Across all of these case studies, “best in class” companies are shown to consistently exhibit and balance deep customer care with business goals*

*For example, one of our companies recently compiled a COVID-19 playbook for its customers with best practices*