



# ON TARGET EARNINGS

The Core of Sales Compensation





# What is OTE?

Imagine you work in the sales department of an IT firm, and you have achieved your targets for the financial year, wouldn't you want to know your commission percentage for the year? But it is not pragmatic to evaluate and calculate the percentage of this commission at the end of the year. There should be certainty in forecasting the total potential compensation. This is where on-target earnings come into picture.

On-target earnings refers to an employee's remuneration package, which includes a base wage and a variable component such as commission. It is the total amount that a sales rep can expect to make if they meet 100% of their sales quota. There are a lot of factors on which an OTE depends, hence it is essential to thoroughly understand the way it is calculated, its benefits, and how an organization can ensure transparency in this process.

# What are the advantages of OTE?

OTE is a type of a contract that ensures a specific commission percentage to the employees . So it is certainly beneficial for the employees given that they employee engagement and motivation are certainly some of the main benefits of OTE



## Motivation of team members

When a sales staff knows exactly what targets they need to meet in order to be rewarded for their efforts, they are more driven to work harder and accomplish better outcomes.



## Higher productivity

Sales reps put in more effort to complete their jobs when they are motivated by the prospect of receiving a good bonus for their efforts, which increases their productivity.




## Business expansion

Team members contribute to the business's overall performance growth by feeling more motivated to execute a good job. It benefits the company and employers as they would not be compelled to induce unreasonable hikes in the salaries to staff who do not contribute well enough for the company.



# Elements of OTE

OTE play a crucial role in an employee's monetary compensation, hence it defines their overall work trajectory. In essence an OTE in sales comprises the following 3 elements 



## Basic Salary

This is the fixed component of an employees' CTC that they would get irrespective of their performance.



## Sales commission

This is a percentage of the sales revenue each employee has generated by personally selling the product or service.



## Bonuses

These are the fixed amount paid by the company on attaining certain specific targets set by the company itself.

# How is OTE calculated?

Calculating OTE is not some complex excel function that you need to execute.  
It is calculated by using this simple formula.



OTE(On target earnings) = Annual base salary +  
Annual commission earned at 100% of quota.

Where sales quota is the sales target set by the company based on their sales target expectations.

It can further be defined for sales & executives



Sales OTE = Base salary + Commissions at  
100% quota achievement for the year.



Executive OTE = Base salary + Bonus



But, how does a company arrive at the above given addends. Let us delve deeper into the detailed process of how OTE is calculated-



## Establishing a base salary

Without establishing a basic wage for your sales employees, you won't be able to count OTE compensation. This amount should be sufficient to reward them for the quality of job they will perform and to match their living standards, allowing them to earn a comfortable life. One of the most common ways to do so is to consider the average compensation for the position in your country and industry while making your decision.





## Deciding the total sales quota

The next step is to determine the quota that your employees must meet in order to receive a commission. The basic rule is that the quota should be 4x-6x of OTE. However, depending on the situation, this may alter. When it comes to defining your quota, you must strike the appropriate mix between being realistic and challenging.



## Aligning the commission with the company goals

The idea of commissions in OTE is to motivate your rep to reach a specific target. For instance, you might want your sales team to raise monthly revenue or close more deals at a specific period.

You should determine the commission rate based on how challenging these objectives are and how long they will take to achieve.



## Adding base salary and commission

Once you have determined the base salary and commission, add them together to get your OTE.



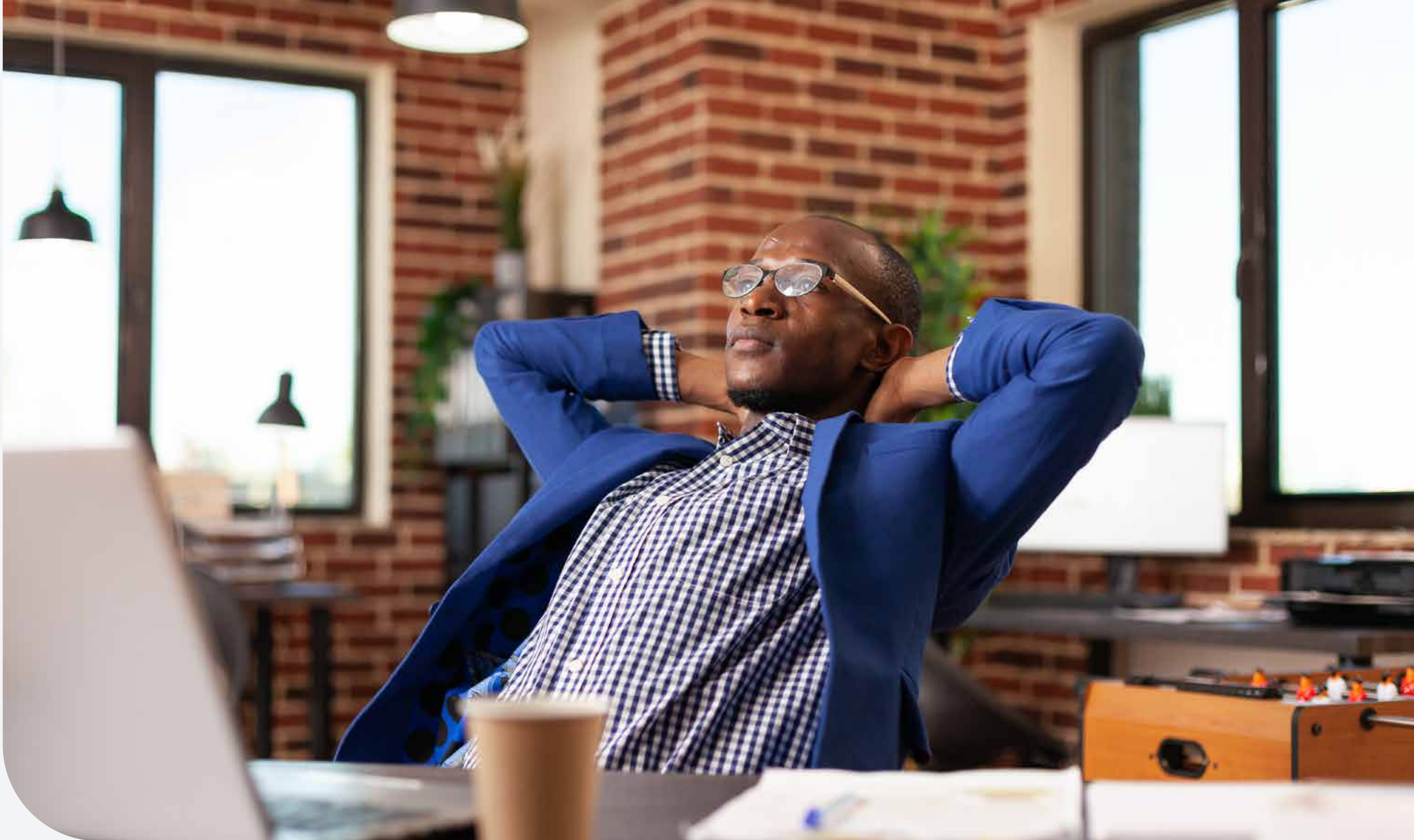
## What is a good OTE?

While there is no fixed criteria around how much is a good OTE. But, a good rule of thumb is one-fifth of the quota. If a salesperson's annual quota is \$700,000, their on-target profits are \$140,000.

**Approximately six to eight times the quota is the "optimal" ratio.**

These are only ideas, not rules. The wage of a salesperson should vary depending on the competitiveness of your industry, the knowledge and experience of your salesperson, the complexity of your sales process, the maturity and revenue of your firm, and so on.





# What does it mean to have "Fully-Ramped OTE"?

The ramping period is the initial few months of a sales position, during which reps learn about the firm, the business, the product, and the processes. They will only be able to completely carry their aims and go for the land given to them after these few months.

Depending on the sector, role level, and expectations, this phase can last anywhere from 3 to 9 months.

Reps will require some additional ramp time in many sales commission circumstances. Ramp quotas and rewards are rarely taken into account by OTE. To compensate for poor targets, it's common practice for sales firms to provide sales reps a bonus or increase their overall commission rate.








# What is Paymix?

You can't talk about OTE without mentioning Pay Mix. The pay mix, or the ratio of base income to commission, is used to calculate a role's OTE. If your pay mix is 75/25, your base salary accounts for 75% of the total, while commission accounts for 25%.

There are a number of criteria that go into determining the pay mix. Let us take a look at the kind of parameters that would help you decide the paymix of your sales reps.

-  **Position of the employee** - An account executive and a sales rep will have different compensation plans since their area of operation and proximity to new business is different.
-  Complexity of the product/services
-  **Sales cycle length** - If your company is a B2B tech firm, there is a good chance that the sales cycle would be longer. In this case, you need to have a higher pay mix to ensure that your sales reps remain motivated.



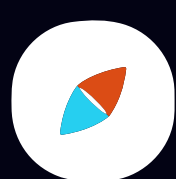
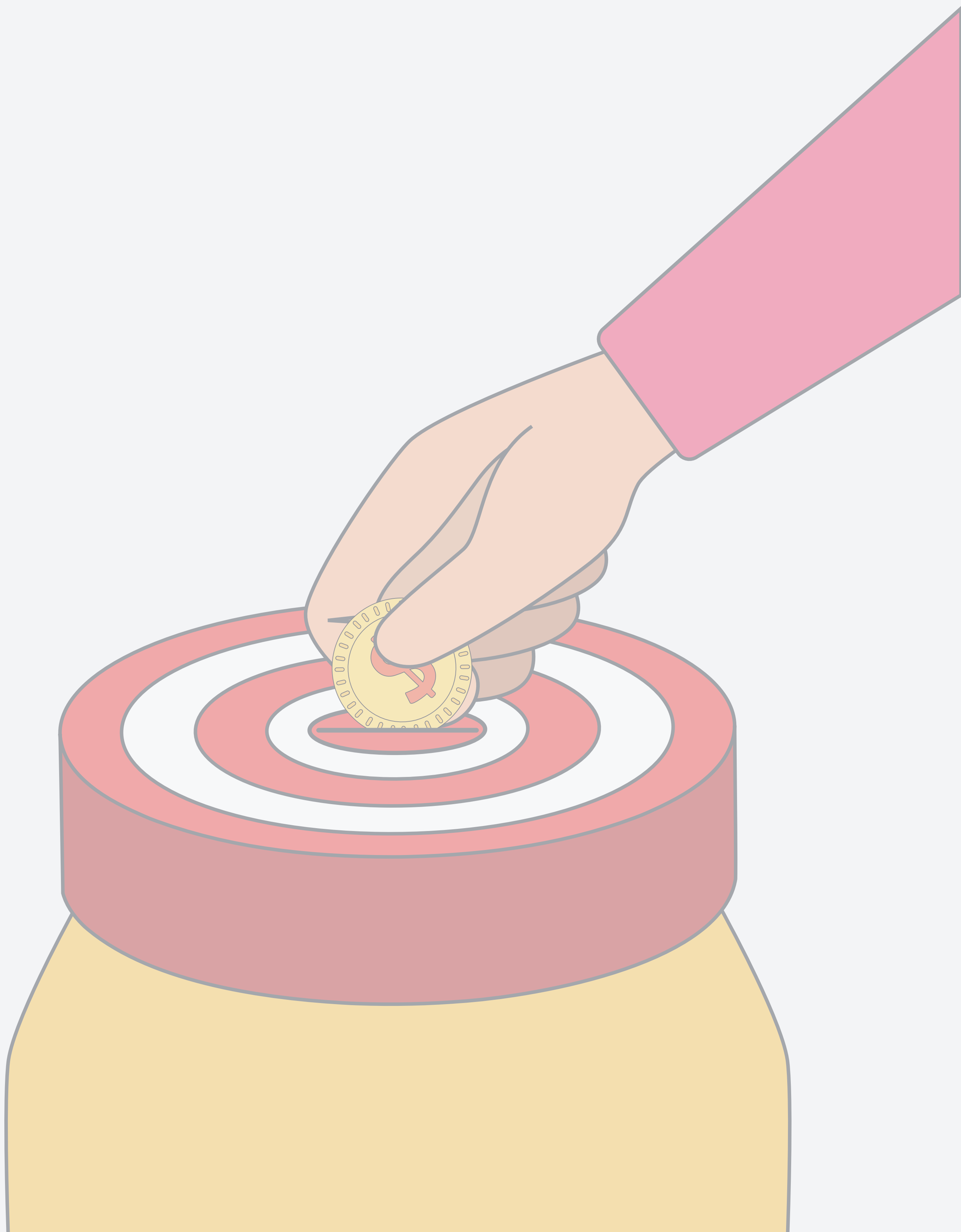
# How to manage OTE?

Managing OTE is more crucial than organizations perceive. Visibility, accuracy and promptness in incentives makes or breaks how effective the OTEs are. This is exactly where Compass comes in.

Compass helps sales reps, sales leaders and CXOs with contextual, real-time, and actionable data.

Compass automates commission calculations and payouts to minimize delays. With tools for program design, target-setting, milestone-based interactive game templates, live leaderboards, program analytics, and a global catalog for rewarding with more than 16000+ options to choose from, and helps organizations manage incentive programs, end-to-end, efficiently.





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