Bringing order to the overwhelming task of territory management and crediting

Introduction

For many organizations, few things strike fear, anger and frustration in the hearts of sales operations and sales compensation teams, such as the initial setup and ongoing management of:

- Organizational hierarchies
- Account assignments
- Sales crediting rules

Often these three processes are collectively referred to as *territory management*. Other terms might also be used, such as deployment, coverage, territory alignment or assignment process. The most common one is *territory management*. From an operational perspective, the three sets of activities impact several key areas:

- Managerial relationships and resourcing
- System access and reporting
- Customer ownership and support
- How sales team members focus their time
- Quota management and quota credit
- Processing of sales or other related transactions
- How sales representatives and managers are paid
- The sales coverage model and sales deployment

The "content" within territory management is a reflection of the sales coverage model. We can define the sales coverage model to include an organization's sales strategy, channel strategy, job roles and reporting relationships.

In turn, the sales objective and budgets drive decisions around deployment: how many people are required in each role and where they should be located. Sales coverage and deployment can have different definitions or might be referred to by using other terms within organizations.

The sales coverage model and sales deployment are commonly used and provide a framework for discussing territory management and the IBM® Sales Performance Management (SPM) solution.

When the sales coverage model and deployment decisions are combined with the sales compensation program we can:

- Determine which people are in which roles and report to which managers (organizational hierarchy).
- Assign existing customers, prospects, geographies, products, or other attributes that are used, to those individuals (account assignments).
- Implement the required rules to appropriately credit those same individuals for the transactions for paying compensation (sales crediting rules).

"…combining the sales coverage model and sales deployment provides a framework for discussing territory management."

Managing the changes

The reality of complex sales organizations is that territory management is not a one-time activity. It is an ongoing stream of changes and updates based on day-to-day requirements and the flow of business.

New sales people are hired and need to be placed in the organization hierarchy. They require an account assignment and, based on their compensation plan, a set of crediting rules.

In many organizations, the crediting rules directly reflect the compensation plan design and do not need to be assigned independently to the plan itself. Placing people on a compensation plan, when combined with their account assignments, determines the set of applicable crediting rules.

Similarly, sales team members are promoted, change roles or leave, resulting in organizational hierarchical changes, account realignment, and adjustments to crediting rules.

Within account assignments, customers merge, go out of business or stop purchasing the company's products or services. Account assignments must be adjusted accordingly.

Or, perhaps a new product is introduced that impacts the product hierarchy. New crediting rules need to be updated and applied.

These scenarios focus on the content of the territory management process. More heavy lifting is required to operationalize the process. Managers access sales reports where the appropriate hierarchy determines the information they see. Sales personnel call on a prospect because its headquarters is based in a state they have been assigned. And, when a sales transaction for that prospect is completed, the crediting rules help ensure that this same sales person gets paid for the sale.

Realizing the complexity: A descriptive scenario

Companies do not consciously decide to implement a complex territory management process. The process evolves over time. In the beginning, the sales model is pretty simple: a sales representative is asked to sell a single product, or a small set of products, to whomever will purchase it. Maybe the company has a sales consultant role to help with demonstrations or proposals.

Then the company grows

The company adds more people to the same role and, at some point, decide to segment the market. Perhaps the company creates size-based segments—large enterprise customers and small and medium businesses (SMB). A new sales manager role, or two, is created. A hierarchy, albeit a fairly simple one, needs to be created in the customer relationship management (CRM) system. Existing customers and prospects are assigned across the various sales team members, large enterprise companies to the named account managers, and geographic regions for the (SMB) team. When a deal is closed, the crediting rules are established to make sure the right team members are paid.

The company continues to grow

To be more competitive in certain industries, the industry leader role is created. The role must be placed within the hierarchy, and the right accounts must be assigned, along with the corresponding crediting rules. At the same time, maybe an inside sales team is chartered. The inside sales representatives are paired with certain members within the named account, SMB and industry segments. While the guideline is for inside sales representatives to report to a single manager, within the western region they report to the named account director because of a previous relationship. When that manager wants to view the progress of her team, she expects the inside sales representatives to be included. However, the inside sales manager, along with the newly appointed sales operations director, wants to analyze the effectiveness of the inside sales role as a whole.

More growth and more new sales roles

The company now has several hundred sales team members in a variety of roles including VP industry accounts, regional sales directors, inside sales representatives, channel managers, midmarket, business development and the newly created global account manager. The global account manager reports to the VP of global accounts.

In addition, they have three direct reports on their team that support the headquarters location. However, some purchasing decisions are made in different regions or even different countries. Therefore, a decision is made to use local named account managers to support these buying points. The local named account managers report to regional sales directors, but have indirect accountability to the global account manager.

More growth and new products

To fuel the latest round of growth, the company launches several new products. These products are more technical than the legacy offerings, and as a result, product specialists are deployed to support the associated selling efforts. And because the European general manager came from a different industry, he sets up a different set of roles and applies the standard job profiles in different ways.

Hierarchy and account exceptions are prevalent. Making sure the hierarchies and account assignments are accurate takes on increased importance. Different systems—from reporting, to solutions design, to resource requests—are based on reporting relationships and account assignments. Reassigning an account impacts how several people respond to requests and support the customer.

More growth, new sales roles, new products, and now sales compensation plan changes

During this period, the sales compensation plan changes as well. In the beginning, the plan was pretty straight forward: close a sales and earn a commission on the transaction. The sales representatives whose name was on the order received the credit.

With each new role, a new plan is created. Each new plan is designed based on the specific responsibilities and priorities of the job. And, crediting rules are defined to allocate transactions based on the plan measures.

Take the product specialist role. The company's newest product is a critical component of next year's growth plan. Five product specialists are deployed into regions across the country. Crediting rules must be set up to help ensure that, virtually any time the new product is sold in a particular region, the appropriate product specialist receives credit. However, the company wants the local account manager to also get credit.

At some point, the company changed the compensation approach from a commission-based incentive to a goal-based incentive. With the new approach, rather than splitting credit, the company can grant 100 percent of the deal credit to both the product specialist, and the local account manager. (When management decided to double credit product sales, it also recognized the importance of double goaling).

Some sales crediting exceptions

Within this environment are also several exceptions. The midmarket sales representative assigned to Florida receives credit for each transaction in the state except for a certain medical device company. The local named account manager has an existing relationship with this company and is assigned this account. Global account managers spend an inordinate amount of time searching for credit. And, the product specialist does not receive credit for the various transactions into one of the global accounts, even though it is headquartered in their region, because the global product team supports this business.

Inconsistency across the sales organization

Globally, there are different incentive plans, and crediting rules are constructed to reflect the distinct needs of those locations. Within Europe and Asia-Pacific, even individual country managers have "tweaked" the compensation plans. They also modify the crediting rules based on the availability and priority of different products. The new VP of sales operations initiates a global project to standardize the compensation and crediting approach. She anticipates it will take 2–3 years.

More growth through an acquisition

The territory management issues grow more painful when the company makes an acquisition. Organizational hierarchies, account assignments and crediting rules must now be integrated, rationalized and maintained on an ongoing basis. And, at this point, the company generates millions of transactions a month. Therefore, changes that occur must be reflected quickly. Management and the field want reports on a daily basis. Those millions of transactions need to be credited so that each morning the organization has a view into the health of the business.

Organizational hierarchy

Organization hierarchies typically become more complex over time. At the beginning of the year, typically a planning effort is made to validate or modify the hierarchy. Early in the company's growth curve, the hierarchy might be pretty clean or consistent across the enterprise. SMB sales representatives report to the SMB manager. Named account managers report to the regional directors. However, even here, there might be exceptions.

With growth, the complexity of the hierarchy will not only increase, but the number of exceptions will continue to grow to align with the various requirements. Within the international regions, the exceptions seem to multiply. For example, country managers might be players or coaches. The sales representatives report directly to both the country manager and the global account manager rather than directly to one and indirectly to the other. Perhaps the company needs to maintain multiple hierarchies. And, certain sales people reside in both situations. The territory management process needs to support this increased complexity.

The hierarchy will change. New positions are budgeted and filled. Sales people and managers leave, change roles or are promoted. Operationally, the following areas are some that are impacted or impact the hierarchy:

- Upstream or downstream systems require the updated information.
- In many organizations, field managers request or make the changes. The workflow of tools to support these activities increases efficiency and reduces the likelihood of errors.
- Sales crediting and incentive payments are based on the reporting relationships and location in the hierarchy.

"…with growth comes increased complexity in the organizational hierarchy and an increase in the number of crediting exceptions."

"…increasing complexity of the organization hierarchy typically results in increased complexity around account assignments."

Account assignments

The increasing complexity of the organization hierarchy typically results in increased complexity around account assignments. In fact, the account assignments might grow even more complex.

With a geographic coverage model, accounts, whether they are existing customers or prospects, are assigned based on their location—perhaps ZIP code, state or some other attribute. For named account managers, the specific customer numbers or other attribute are used for assignment purposes. Other dimensions might include products, volume of current purchases, account revenue size, industry or channel. The areas impacted are similar to those of the organization hierarchies:

- Upstream or downstream systems require the updated information.
- In many organizations, field managers request or make the changes. Workflow or tools to support these activities can also increase efficiency and reduce the likelihood of errors.
- Rules also need to be enforced to manage account changes.
  - Dates: For example, account changes can be made only within the first 2 weeks of the new quarter.
  - Span of authority: For example, only accounts that meet certain criteria can be moved in or out.
  - Decision making: For example, both managers who are impacted by the change must approve it.
- Sales credit and incentive payments are based on the account assignment.
- In addition, quotas and sales goals might be directly impacted. For example in some companies, quotas adjust based on account movements.

An even greater opportunity for more complexity comes from the typically higher number of exceptions. For example, sale representative A is assigned all accounts, meeting the defined criteria except for customer ABC. A partner manager in one country, because of the local culture, also owns a couple of named accounts. The same exception applies to the product specialist in Paris. She was a top named account representative and remains there because of her previous customers relationships.

Perhaps the exception is based on defined logic, or perhaps the exception is "just because." The criteria for assigning accounts might also be more complex in their own right. It might not be that just one dimension is used to create account assignments. Perhaps two, three or more are all applied to determine which accounts are covered by which sales team members. Depending on the number of products, roles, channels or other criteria, the number of attributes that are used can reach into the double digits.

Sales crediting rules

The third part of the territory management puzzle is the crediting rules. The challenge of managing crediting rules increases significantly as the organization hierarchy and account assignments grow in complexity.

Each role typically has a sales plan that might also come with exceptions for certain individuals or locations (for example, Country B or Japan). The sales plan might have multiple measures: revenue, number of accounts, gross profit, new versus existing business, core products, new products, services, and maintenance contracts. The list goes on. Each of the performance measures needs a crediting rule or set of crediting rules. These rules help ensure that the sales representative is appropriately credited for the result that they are being measured for.

"…the challenge of managing crediting rules increases significantly as the organization hierarchy and account assignments grow in complexity."

Implemented in a pure state, the crediting rules can be overwhelmingly complex. However, like the account assignments, there can be exceptions—a lot of them. Combined with ongoing data issues (such as a wrong customer ID or incorrect product code), the processing and management of crediting rules is arguably one of the most complex, if not the most complex, part of administering an incentive program.

A simple illustration

An organization has defined four sales jobs: territory manager, account manager, sales consultant and product specialist. Each of these sales jobs on the surface appears to be aligned with a common compensation approach: revenue-based commission. But, when the territory assignments are combined with the compensation plan and just a few crediting exceptions, the level of complexity significantly increases.

	Territory manager	Account manager	Sales consultant	Product specialist
Role	Sell to new customers	Sell to named new and existing customers	Support account managers in the sales process	Support account managers and territory managers with the sale of focus products
Account Assignment	Geographic area (states)	Named accounts within geographic area (states)	Geographic area (states)	Geographic area (states)
Account Assignment Exceptions	• Exclude named accounts within assigned geography • Include named account ABC for TM1	• Account CDE in other geography for AM1		• Account CDE in other geography (teamed with AM1)
Primary compensation measure	**Revenue – geography**	**Revenue – named accounts**	**Revenue – team**	**Revenue – focus products**
Crediting Rules	• Each product Accounts within the assigned geography who have not purchased products for 12 or more months • Each sale for the first 6 months after initial purchase: credit granted on order submission	• Each product except replacement parts with SKU numbers 1500 – 2900 (replacement parts) • Accounts directly assigned • Each sale for new and existing customers: credit granted on shipment • Account transfers in: Each transaction within 3 months of the transfer • Account transfers out: The various revenue associated with signed contracts that ship after the transfer	• Products beginning with SKU numbers, 4, 5, 6 and 8 • Bundled industry solutions • New customers within assigned geographies • New named accounts assigned to account managers • Credit granted on order submission for geographic accounts and shipment on named accounts • Account transfers in: Each transaction within 3 months of the transfer • Account transfers out: The various revenue associated with signed contracts that ship after the transfer	• Products beginning with SKU numbers, 6 and 8 where the product specialist is involved • Initial sales only • Each account within assigned accounts • Credit granted on order submission
Credit Rule Exceptions	• Need to include transactions for named account ABC for TM1 • Credit on shipment • Each product except replacement parts with SKU numbers 1500 – 2900 (replacement parts) • Standard transfer in and out rules apply	• Need to include transactions for account CDE		• Need to include SKU families 6 and 8 transactions for account CDE

Table 1: Four sales roles with a simple account assignment, crediting rules and exceptions illustrate significant complexity.

When the four jobs are populated by a few hundred sales people, more exceptions, and a large number of transactions, it becomes easier to understand why crediting can be so problematic.

Depending on the organization's inquiry and dispute process, there might also need to be a way for individual contributors and managers to identify issues, submit questions or possibly make the changes themselves. Today's sales and business leaders also have a higher expectation around data availability. Therefore, virtually any exceptions, errors and new transactions need to be processed with exceptional speed.

Top territory management and crediting issues

The following major issues are associated with territory management and crediting:

- The ability to support complex and multiple sales hierarchies
- The ability to efficiently assign, change and leverage account assignments with multiple attributes
- The ability to implement and manage complex crediting rules, including exceptions and potentially dozens of attributes
- The ability to efficiently and accurately process transactions and assign them to the correct plan participants
- The ability to automate processes for supporting hierarchies, assignments and sales crediting
- The ability to run preliminary scenarios and evaluate the impact on the business
- The ability to accurately report on sales performance data in a timely fashion at a level of desired granularity (For example, pre-processing summarizes or aggregates the data in a way that does not allow for detailed deporting)

For each of these items, sales organizations typically cobble together a series of spreadsheets, homegrown tools and workarounds. To date, not single solution addressed all of these issues. To improve the operational aspects of their sales organizations, sales operations and compensation leaders typically look to:

- *Implement their desired requirements*. The current approaches will not support the preferred coverage, deployment or compensation approach:
  - Current requirements that they are unable to support today (such as multiple hierarchies)
  - Future requirements that the current systems will not be able to support (such as multiple territory attributes)

- *Increase the efficiency of the associated activity.* The current process takes too long or is inefficient and viewed with skepticism:
  - Speed up the credit allocation process.
  - Reduce errors, and if errors are found, reduce the time to analyze and address them.
  - Use workflow to allow field managers to request or submit inquires and changes.
  - Reduce the headcount required to set up, manage and change hierarchies, assignments and sales crediting.
  - Provide more timely, relevant and accurate reporting and data.

- *Reduce the level of risk associated with the activities.* Cobbled together and spreadsheet-based approaches have a high level of risk built into them:
  - Reduce the level of manual intervention and institutional knowledge required.
  - Increase the auditability of changes.

Current approaches

The typical approach used by sales organization's today is made up of spreadsheets, home grown systems and other software solutions.

Hierarchy data

The hierarchy data could be stored in the human resources (HR) or CRM systems. Some organizations might store hierarchy data in a homegrown or legacy system, which is somewhat rare except for certain industries (e.g., insurance). If the customer has an existing SPM system, it might also serve as the system of record for hierarchy information, particularly if the sales hierarchy is different from what is stored in the HR or CRM system. For example, some organizations have more granular sales roles than the HR or CRM system will support, so they maintain a separate hierarchy.

Assignment data

The assignment data is commonly in the CRM system, although many organizations maintain the account assignment data and changes in an Microsoft Access database, spreadsheet or home-grown tool. This information is then fed into the CRM system or other system that requires the data. Similar to hierarchy information, there is a chance the customer maintains this data in its SPM system. However, it is possible that the existing SPM system will not support the management of this information. Most SPM systems do not have the robust features to manage complex account assignments.

Crediting rules

The sales crediting rules are typically stored in one of the following areas:

- A home-grown administrative tool.
- An SPM system depending on the system in place and the complexity of the sales crediting rules.
- A pre-processor so that the transactions are allocated prior to loading in the home-grown administration tool or existing SPM solutions. If a pre-processor is used, one potential issue is that the data is aggregated to facilitate the calculations process and makes detailed reporting very difficult.
- In the transaction source system.

IBM Territory Management on Cloud

IBM has recognized the tremendous challenges described in this paper and developed a solution that is purpose-built for Territory Management and Crediting. The solution is called IBM Territory Management on Cloud.

Territory Management on Cloud is a cloud-based solution for setting up and processing territory assignments, setting up organization hierarchies, and defining sales crediting rules to process against transactions and other sales activities.

With a precedence-based assignment and rules approach, this solution is quick to set up and easy to maintain. Territory Management on Cloud is based on a distinct process model that leverages the cloud and proprietary approach to more accurately allocate millions of transactions in record time.

IBM Territory Management on Cloud addresses several key functional areas.

Participant and hierarchy management

Determine individuals' roles and where they reside in each of the organization's reporting and other hierarchies:

- Visually maintain multiple hierarchies.
- Support for sales overlay roles.
- Set effective dating to track history and maintain audit compliance.
- Define multiple hierarchies and hierarchy levels.
- Define other hierarchies types as required (such as product).

Territory and account management

Assigns existing customers, prospects, geographies and products (or various other attributes are used) to those individuals:

- Define an unlimited number of attributes.
- Create precedence and exception-based definitions.
- Set effective dating to track history and maintain audit compliance.

Crediting rules

Implement the crediting rules that are required to credit the appropriate individuals for the transactions required to pay compensation:

- Identify, categorize, and assign an incoming data source to apply to effective dated rules.
- A set of rules might be assigned to a specified role, such as payee and title.
- Create new rule sets, such as for overlapped roles, scenarios, or retroactive changes.
- Splits and multiple crediting for direct and indirect roles.

Crediting assignment

Execute the processing in order to create the individuals for transactions that are attributable to them:

- Process and allocate transactions based on hierarchies, territories and crediting rules.
- Supports retroactive changes.
- Leverages the high performance Microsoft Windows Azure platform.

Reporting

View reporting on coverage gaps, conflicts, rule utilization and more.

About Business Analytics

IBM Business Analytics software delivers data-driven insights that help organizations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management and risk management.

Business Analytics solutions enable companies to identify and visualize trends and patterns in areas, such as customer analytics, that can have a profound effect on business performance. They can compare scenarios; anticipate potential threats and opportunities; better plan, budget and forecast resources, balance risks against expected returns; and work to meet regulatory requirements. By making analytics widely available, organizations can align tactical and strategic decision making to achieve business goals.

For more information

For more information, see **ibm.com**/business-analytics.

To learn about IBM Territory Management on Cloud, see **ibm.com**/software/analytics/solutions/sales-performance-management/territory-management.

And, to learn more about IBM Sales Performance Management, visit **ibm.com**/business-analytics/spm.

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