White Paper

Sales crediting

Strategies to help you succeed

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IBM

Contents

Highlights

- Align territory management and sales crediting with sales strategy.
- Clearly determine job definitions.
- Rely on proven approaches when crediting salespeople.
- Gain better visibility into crediting processes.
- Reduce reporting errors, and focus on sales.

If you're a sales manager at a large, growing company, territory management and sales crediting are probably not your favorite parts of the job. It's easy to see why. Consider an example where your organization introduces new products sales trend upward, and financial growth follows. To keep up with the demand, your sales team grows.

Along with that growth, the process of setting up and managing territories and crediting becomes incredibly complex. The reason is that your sales team now has multiple sale roles, with each salesperson selling a set of products. Maybe some of your sales team members are allowed to sell only some products. Other salespeople might be allowed to sell into territories they haven't been assigned to, perhaps because of a previous relationship with a customer in that region. And, yet other members of your sales team have either left the company or been promoted to other sales positions.

Keeping track of all these sales people and making sure the right sales team members are credited for a sale can seem daunting. Every day, organizations deal with the same challenges. Some companies try to confront their territory management and sales crediting processes with a homegrown software system or even spreadsheets. Of course, these manual systems can lead to errors and poor visibility into crediting processes.

Another way to think about sales crediting and territory management — that is, your sales strategy — can help make everything simpler and better.

Basing your crediting and territory management on your sales strategy helps to ease the entire process and reduces complexity. Instead of spending your time dealing with the hassle of managing crediting processes, you can focus on sales.

Growing hierarchies, growing headaches

Organizations don't choose to implement needlessly complex territory management and crediting processes. Early in your company's history, things were simpler, with a sales representative selling a few products.

Along the way, business started to grow. More people were added to the same role, and perhaps you chose to split the segments into large enterprises and small and medium sized businesses. Eventually, a hierarchy was born, with hundreds of sales team members in different roles, such as a regional sales director, inside sales representative, channel manager and global account manager.

With this new hierarchy came a new set of management headaches. In the early days, it was easy to manage the process: a sales representative closed a sale and received the credit. With each newly created role, a new sales plan was created, based on the specific responsibilities and priorities of the job. Crediting rules were defined to allocate transactions based on plan measures.

The increasing complexity of the evolving organization hierarchy typically leads to increased complexity around account assignments, and the challenge of managing crediting rules grows significantly. Unfortunately, you struggle to efficiently assign, change and benefit from account assignments with more than one attribute, and you can't effectively implement and manage all those complex crediting rules.

Territories and crediting: A part of your sales strategy

Transforming your territory management and sales crediting management processes begins with a simple, yet obvious realization: it's all fallout from your sales strategy.

Like any organization, everything starts with your approach to sales. You have to think through the products you're selling and how to target those products to different customers. You then have to ponder the right job roles you need to succeed and the message you want your salespeople to deliver.

Your approach to managing sales also drives your coverage model. In turn, it flows into territory definitions, account assignments and crediting rules.

From a big picture perspective, it goes back to the overall sales strategy you take to market. Even your territory management system is a reflection of that high-level sales strategy.

The importance of job definition

Going a level deeper, job definition is probably the most impactful aspect of territory management. It's about how you structure your sales force and define its roles.

Most companies approach job definition in the following four ways:

- **Sales strategy.** If you think of a sales strategy as a graph, you have current and new customers on a vertical axis, and current and new product areas on a horizontal axis. Where your sales approach is along this graph is dictated by whether your strategy is about acquisition, retention or penetration within existing accounts.
- **Account segments.** Many companies stratify their job roles along the lines of account segments. For example, they might have a group for global accounts, another group for the next tier of key accounts, and then a group for everyone else.
- **Sales process.** Another job definition approach revolves around how you're involved in the sales process. You might have an inside sales representative who is responsible for identifying opportunities, an account executive who is adept at closing deals, and an account management role that is more about farming and upselling.
- **Product.** Job roles are also defined around product areas, especially if specialized knowledge is required to succeed in those areas..

As you think about how all these approaches work in your company, know that your sales strategy and the nuances of your market lead to job definition decisions. These decisions impact territory management and how it gets manifested in your internal systems.

Crediting multiple people: The do's and don'ts

As you know, often a lot of different people touch a sale. When thinking about how to credit all those people, you need to consider some do's and don'ts. First, let's start with what you should do.

Compensation circles have the notion of "pay for persuasion." The farther you are from being critical to a deal, typically the less you are paid. Therefore, it is acceptable to pay for persuasion and credit two or more people if that is your sales engagement model.

Also, consider whether you have a commission-based plan or a quota-based plan. If it's a commission-based plan, you have only so much compensation to go around and need to split the commission amount by using some factor. If you have a quota-based plan, you can credit more than one person so that they can retire quota. But, you want to make sure you have budgeted the quotas accordingly, so that your sales team aren't caught off guard by any surprises.

Now, let's look at what you shouldn't do when it comes to crediting a sale; generally speaking, to never confuse the concepts of what is rewarded in variable compensation versus base salary. You pay sales representatives for closing sales and not for all the post-sales customer service work that is done. Usually, those tasks or services are funded by base salaries.

Next, do not pay people who aren't critical to the sale. Sometimes your compensation plan forces you to pay in those situations. However, you need to think about putting provisions in place where people need to be directly involved in order to get credited.

The theme is that you don't want to pay for things that you are already paying for or don't need to pay extra for. You need to plan for splits and double crediting so that your compensation spending isn't exploding in proportion to your sales results.

The right number of people to credit

The right number of people to credit on a sales transaction varies widely by industry. For example, in the insurance industry, a fairly small number of people get credited: the agent, the agent's manager, and maybe one other person.

In the retail industry, the number is much bigger. For example, if someone buys perfume, not only does the retail associate is paid, but the manager of the cosmetics department, the store manager, and the regional manager also get paid. It's often common to credit 10 people for a simple perfume sale.

The situation is even more dramatic in the high-tech industries. For example, a computer manufacturer has distributors that touch a sale, and often a matrixed sales organization with product specialists, sales engineers and relationship managers. It's possible for 15 or 20 people to receive credit on a sale, which is acceptable when quotas are set accordingly, because it reflects the dynamics of the company's go-to- market strategy.

Best practices: Sales crediting and payment events

When crediting a salesperson, you need to consider many situational factors, ranging from payment at the time of booking to payment at the time of cash collection.

The most common approach is to pay at the time of the booking. This approach makes sense if there is little likelihood of a customer canceling the order after the booking and if you don't need the sales representative to be involved in the installation. However, if order cancellations are an issue, your policy might be to pay when the order ships or even when the revenue is recognized. This approach can keep the sales representative involved until this risky phase passes. A slight variation on this method is to pay at the time of booking but to also have a policy where you can draw back the commission within 90 days if the booking is cancelled.

Some companies will pay at the time of installation or customer acceptance. This approach is appropriate if management really wants the sales representative to be involved at the point of installation. However, the trade-off here is that the delay between the point of persuasion and the point of payment can be demotivating for a sales representative. Therefore, you need to think through whether this approach is necessary.

Finally, a smaller number of companies elect to pay when the cash is collected from the customer. As with any of the other approaches, think about the behavior that's being driven, because you do not want to have all your sales representatives turning into cash collectors. Steer away from the accounts receivable setup, if you have one, even if it's a good one.

Bringing it all together: The role of technology

So far, you've been reading about how territories and crediting are a part of your sales strategy, the importance of job definitions and the do's and don'ts of crediting multiple people.

But, you still need the right technology in place to make it all work for your business. You need to seamlessly integrate your territory management and sales crediting strategies with your internal systems.

For many companies today, that's easier said than done. They often store their sales crediting rules in homegrown administrative systems, spreadsheets or other software solutions. These low-tech systems, which depend on manual entry of information, are prone to error and inaccuracy. As a result, sales managers have trouble aligning territory management processes with sales coverage decisions, and they lack visibility into the alignment of sales strategies with reporting and pay systems. Ultimately, managers are unable to deploy the sales coverage models they want to have, and they lack the kind of sales crediting sophistication they need to drive the business forward.

To solve this challenge, sales managers and their operations teams need a software solution that is closely tied to their sales strategy, so that territory management and sales crediting are automated. When they find the right solution, they need to set up employee and product hierarchies and create business rules for people, products and territories by using dashboards to bring order to the entire process.

Ideally, such software would track any changes as they are made. It would also allow the setup of specific business rules, making it easy to see when salespeople were paid and why they were paid.

An automated solution: IBM Sales Performance Management

IBM® Sales Performance Management focuses on the challenges of territory management and sales crediting. This solution automates the processes of setting up territories and organization hierarchies and defining sales crediting rules to process against transactions and other sales activities.

IBM Sales Performance Management provides high availability, and strong performance that organizations need. Which provides high availability, strong performance and the elasticity that organizations need to quickly add capacity based on system demands. This solution uses a process model that more accurately allocates millions of transactions in a short time frame.

IBM Sales Performance Management can help your sales organization:

- Create and maintain sales hierarchies (customers, products, geographical areas and salespeople) and manage complex sales territories and coverage models.
- Manage sales overlays and crediting splits to multiple salespeople.
- Define and administer how sales territories and account assignments are structured.
- Create multiple crediting rules that are based on territory definitions, account assignments and order of precedence.
- View preconfigured dashboards and reports that display recent and historical activities, territory and crediting assignment gaps and conflicts, and audit trails.
- Maintain territory history and crediting rule changes by using effective auditing and tracking.
- Align territory management processes with sales coverage decisions.
- Gain visibility into the alignment of sales strategy with reporting and pay systems.
- Save time and increase the accuracy associated with sales crediting, reducing resource requirements and errors.

Most of these benefits are realized because IBM Sales Performance Management automates many of the territory management and sales crediting functions that were previously manual and often based on spreadsheets.

Conclusion

Without a doubt, territory management and sales crediting can be painful to deal with. By realizing that both processes are already closely tied to your existing sales strategy, you can more easily determine job definitions within your sales organization.

By considering the do's and don'ts that are related to crediting, and implementing proven approaches around when to credit salespeople, it will be easier for you to base your business rules on your overall business strategy. Then, when you deploy an automated solution, such as IBM Sales Performance Management on Cloud, you will gain better visibility into processes. You will also have far fewer reporting errors, and you can spend time focused on boosting your sales instead of managing systems.

For more information

To learn more about IBM Industry solutions, contact your IBM sales representative or visit: ibm.com/industries/sales-performance-management

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