White Paper

The seven deadly sins of SPM

Watson Financial Services

IBM

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Sales compensation is the fuel that drives revenue generation. Each year over $1 trillion is spent on sales forces yet many organizations still struggle with incentive administration and reporting — especially those with large sales forces, complex incentives or high sales transaction volumes. The result is diluted sales performance, as carefully designed incentives lose their impact through confusion, errors or spotty feedback.

We view sales compensation as an ecosystem that is comprised of a number of independent systems that all interact with each other. With this view, tightly integrated solutions can be designed, aligning compensation plans, communication, administration, reporting, service and analytics to deliver results.

When this ecosystem is out of balance, incentive administration and reporting require excessive manual effort, high error rates occur and the sales back office is viewed as an inflexible roadblock.

Furthermore, the sales force may feel distracted, frustrated or even worse — apathetic. We help companies quickly diagnose and remediate underperforming sales performance manage- ment (SPM) ecosystems and after numerous projects, we recognized similar root causes coming up repeatedly, and thus was born — The seven deadly sins of SPM.

1. Ineffective compensation plan designs

The incentive designs themselves are the most important part of the SPM ecosystem. After all, if the incentives are not capable of producing the desired results, then tweaking the other components of the ecosystem will not make a meaningful difference.

The most common root causes behind ineffective compensation plans are misalignment, overcomplexity and poor communication.

Misalignment occurs when the job responsibilities and plan objectives are not aligned with the goals of the organization. This can be a result of poorly defined jobs, or by not taking a holistic view of compensation when there are changes to corporate strategy. If your strategy has changed drastically or even evolved a little bit each year, while the structure of your sales compensation plans have not changed, then you likely have some misalignment in your plans.

Complexity can appear in many ways. It could be a large number of plans or convoluted eligibility, crediting or incentive calculation rules. When we see a salesforce of 1000 reps and 500 different sales compensation plans, this usually means that sales leaders are designing plans for specific individuals, versus the job. All of these special compensation arrangements introduce complexity and lead to significant manual administration. Complexity can also occur during quota setting as elaborate allocation factors result in quotas that are neither equitable, achievable or understandable.

Communication can be a very powerful motivator when done well. Good communication of sales incentives includes the initial executive announcement, reinforcement by local management and clear and accessible documentation.

Incomplete and ambiguous communication is guaranteed to produce some spirited disputes later in the year, when reps believe they have met eligibility criteria and then discover the fine print.

Sales forces are motivated by simple plans that have clear alignment to corporate goals, are communicated concisely and then reinforced regularly.

2. Dirty data

Administering sales compensation requires the upkeep of many important pieces of information, such as:

- Who is in what role and how should they be paid?
- Who reports to whom?
- Which clients or accounts, territories or regions?
- Which products are bundled into which product categories?
- What are the rules and rates for incentive calculations?

Additionally, the effective dates for each of the above must be maintained so that historical states can be reconstructed when backdated recalculations are processed.

When we work with clients that are complaining about high error rates, we usually find challenges with reference data, and often a lack of data hygiene is a root cause.

Your business model can also have a dramatic impact on your sales compensation data quality. The best case scenario for data quality exists when your sales force sells your products to your customers, since your IT department will have control over the systems of record for each of these areas. Career insurance agents who sell their companies' policies directly to their prospects and customers are a good example of this scenario.

But, when you are selling your product through an outside distributor to someone else's customer, the control over data quality falls off quickly. High tech companies who sell their products via distributors or OEMs often struggle with the quality and availability of sales transaction data. In recognition of these realities, compensation plan designers need to adjust incentive plans to focus on data that is available and trustworthy to avoid administrative nightmares. Failure to do so can result in a salesforce that mistrusts their commission results.

3. Convoluted processes

Changing outdated business policies can be one of the most difficult changes to make. In fact, it is not uncommon for old business policies to remain in place even when a large systems initiative is underway to transform incentive processing (i.e., paving the cow path). The first step in simplification is to fully understand the existing processes and policies from end to end, and then identifying the bottlenecks and redundant or unnecessary processing branches. The next step is having the courageous discussions to change the old way of doing things in exchange for a more streamlined business process.

Systems with lightweight functionality or older systems that have been modified so much that people are afraid to touch them, can have a significant impact on time to market with new incentives. There are three possible outcomes in this situation:

- The business yields to the system and designs simple- to- administer plans.
- The operations team fills the gap with manual processes.
- You can enhance or replace the system.

Eventually these systems will have to be replaced as the business cannot continue to absorb manual workarounds and at some point, the business is going to have to implement a more complex plan that cannot be supported manually.

For some organizations, the last minute, high priority request occurs infrequently and is manageable, while at others it is standard operating procedure. Having a clearly understood (and utilized) change process that includes active management and target dates is a first step in getting last minute requests under control. Best practices include having a formal multi- disciplinary team (e.g., sale ops, finance, legal, HR , IT, etc.) where all participants are knowledgeable, accountable and articulate. Also, having clear decision-making processes and clear roles helps ensure that the team is decisive and that open issues can be resolved quickly without putting the schedule at risk.

4. Lackluster reporting

ICM and SPM systems only have two real outputs — payment amounts and information. Our research shows that less than one third of companies are satisfied with their ability to leverage the information inside their compensation systems. Lack of specialized skillsets and the effort required to get data out were cited as top obstacles. Three primary audiences require sales compensation information to do their jobs well — compensation operations, sales and finance.

The operations team requires a viewing window into how performance is translated into credits and incentives in order to validate results and resolve inquiries and disputes. With old legacy solutions or Excel or Access solutions, this is not usually a problem as there are little controls on the data. However, many of the new packages are less transparent and require forethought to ensure that information needs are met.

Sales performance reporting helps maximize sales performance through the timely reinforcement of incentives and by providing sales management with the drill down capabilities to gather insights on team performance. Sales leaders and reps need the ability to interact with results from multiple perspectives (e.g., summary, detail, by product, by region, etc.). Solid sales reporting platforms balance frequency of information updates, completeness of information, accessibility and also deliver a solid user experience that keep everyone's eyes on the goal line.

Regular financial reporting helps minimize variances between accruals and actuals. When sales compensation is processed across multiple systems or has some manual components, it can be difficult to accrue for future payouts, since the system is not aware of accumulated performance until it is time to pay out bonuses. Consolidation of incentive administration on to a single platform accompanied with trending reports can significantly improve the quality of financial forecasts.

Reporting projects are successful when the scope is achievable and valuable. We recommend beginning with a KPI where a consensus definition can be reached fairly easily (e.g., revenue) and then exploring requirements by adding dimensions to the KPI such as territory, team, product category, revenue versus forecast/quota and trending information. We also recommend delivering reports to the field incrementally rather than in bulk, as large reporting projects can suffocate under their own weight. Also, by releasing relatively simple initial versions of reports and then adding complexity over time, you can incorporate real world feedback, resulting in much better reports.

5. Service without a smile

If any of the deadly sins that we have discussed have already been breached, then we may have a situation where a rep who is not very clear on their compensation plan receives a confusing statement or report. Not surprisingly, this rep may reach the conclusion that they were paid incorrectly and will wish to dispute the result.

Resolving disputes in a quick, friendly and fair fashion is the key to keeping reps focused in the marketplace and nipping anger and frustration in the bud. Short dispute windows, assuming reps are guilty until proven innocent or making the service team generally difficult to reach, are all tactics that can fuel versus dampen negative emotions.

Make sure that there are enough analysts to handle the demand from sales reps and that your team is available to interact with the reps during their working hours. It is also important to document and classify all service requests — from both the field and home office requestors. By doing so, you can quickly spot areas that need improvement to take action

Finally, monitor progress with your team regularly. You can inspect service logs, call volumes by type, number of calls requiring escalation, etc. By doing so you are letting your team know that good service is important and it also helps you keep your finger on the pulse of issues before you get a surprise call on a hot issue from the Senior Vice President of Sales.

Given that 100 percent of your revenue flows through your sales reps, it is important to provide a great service experience to the people who manage your organization's client relationships.

6. Ignoring incentive ROI

The amount of money spent on sales salaries and incentives is staggering and with such large sums at stake, it is critical to use good stewardship on how this money is spent. Without a thorough analysis of where all of the incentive dollars are going and what the company is getting back in return, it is difficult to learn and improve upon the effectiveness of incentives.

According to our research, only about 12 percent of companies actively track their return on investments in incentives.Analytics can help answer important questions such as:

– Which incentives work the best for different segments of our salesforce (e.g., new hires, veteran producers, top performers)?
– Which managers consistently hire and develop future sales stars?
– How much additional revenue lift was received from the Q4 SPIFF? Which products?

Culture and personalities can have a big impact on how decisions are made within the sales division. However, finance executives need accurate cost and revenue information in order to correctly allocate budget dollars for selling expenses.

Modeling tools can help build forecasts of revenue performance for each incentive component and reporting can then compare forecasts to actual. Multivariant analysis can look at incentives over time and help identify the audiences who respond best and which incentives are truly causal when it comes to increased revenue performance.

Increasing awareness of the total spend with a focus on how to get more from your incentive budget is good way to get these discussions underway. Like anything new, you have to start doing it regularly before it becomes a habit and part of standard operating procedures.

7. Not protecting your investment

This particular deadly sin is one of the most common sins. It is particularly nasty because by not protecting your investment, it will create so many headaches for your organization that it will be difficult to find the time to deal with the other six deadly sins.

We've spoken with many customers and commission managers and have discovered and discovered that in many cases, the HR department had between three and fifteen times more dedicated IT support than sales compensation. This is surprising since most people would agree that calculating and adjusting sales compensation is much more complicated than managing home office employee payroll. When sales compensation has inadequate technology support, solution quality begins to decay quickly as:

– Which incentives work the best for different segments of our salesforce (e.g., new hires, veteran producers, top performers)?
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There will always be times when you need to scramble to get things done and take a few short cuts. However, this approach cannot be the only way to things get done.

Every shop has busy periods and not so busy periods. Leveraging the slower times to make progress on these important wish list items will help stabilize your environment and deliver new capabilities. The financial implications of an unprotected back office investment can be significant. When remediating unbalanced ecosystems, we look at three key areas when determining how best to create value for an organization:

– Where can money be saved? (e.g., rework, commission errors)
– How can the back office help drive more revenue? (e.g., improved performance management)
– How can expensive risks be avoided? (e.g., major errors, inaccurate accruals, apathetic sales force, rep turnover, etc.)

Benchmarking and performing a gap analysis against best practices can help raise the stakes and link sales back office capabilities to the achievement of corporate objectives. By doing so, the back office can be seen as a value creator and appropriate investment levels can be determined. A clearly defined end state along with the journey required to reach it, are crucial to unlock the resources that will rebalance your SPM ecosystem.

Conclusion

These are the seven deadly sins of SPM. Compensation analytics helps companies with large sales forces simplify operations, deliver technology and communicate performance results in a way that optimizes incentive effectiveness and revenue.

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2. Dirty data
3. Convoluted processes
4. Lackluster Reporting
5. Service without a smile
6. Ignoring incentive ROI
7. Not protecting your investment

About IBM Industry Solutions

IBM Industry Solutions 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.

IBM Industry Solutions 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.

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IBM Corporation
Route 100
Somers, NY 10589

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