

# Build for growth: Master the ICM advantage in retail

How Incentive Compensation  
Management fuels dynamic,  
high performance retail  
businesses

**Watson  
Financial  
Services**



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## Highlights

- Achieve growth with increased workplace productivity
- Use ICM to promote compensation programs
- Centralize and streamline the administration of plans
- Transform business to meet the demands of rapidly evolving enterprises
- Reward contributions that advance growth initiatives

Since modern department stores emerged in the 19th century, retailers have strived to service consumer markets of increasingly greater scale, complexity and geographical scope. The retail industry demands sharp business acumen, stamina and discipline in order to realize profitable growth in the face of tough competition, fluctuating consumer tastes and changing business practices.

Retail covers wide subcategories of products targeting consumers. For instance, businesses can span the marketing and sales of various consumables, apparel and footwear, groceries (food products and beverages), home supplies, durable goods (appliances and furniture), office supplies and electronics.

Business models vary too, such as selling through department stores, big-box stores, discount stores, minimarts, specialty stores, membership clubs, franchises, supermarkets and catalog and mail order operations. The orchestration of multiple channels (omni-channel retailing) is increasingly important, notably in conjunction with electronic retailing strategies and the building of online brands.

Traditional retail is labor intensive though, requiring extensive staff to support networks of physical locations. Variable compensation stands out as a key measure in helping retailers build for growth. This growth can be achieved by enticing greater productivity from relatively large workforces with modest skill sets and levels of dedication.

Incentive compensation management (ICM) solution promotes efficient, agile execution of variable compensation programs while providing greater control over costs. ICM tools centralize and streamline the design and administration of plans, automate manual compensation processes and improve visibility into outcomes.

The retail industry is increasingly interested in ICM as a workforce management strategy. Organizations can benefit from an examination of how variable compensation helps raise the performance of labor forces while also reviewing the main components of ICM solutions and their value to retailers.

### Challenges concentrating retail's attention

The retail industry is large in terms of sales and employment. For example, according to Deloitte "5 year (FY2011-2016) retail revenue rose 4.8%, US\$4.4 trillion for the world's Top 250 retailers.<sup>1</sup> In the United States alone there were 4,854,300 retail sales workers in 2016."<sup>2</sup> Despite growth in the industry, anxiety prevails over fluid market dynamics and pressures on margins.

In retail there is little room for complacency. Markets are more open, competitive, complex and fast moving than ever before. Even the most successful retailer must constantly consider new ways to increase productivity and drive growth in sales. Six trends are compelling retailers to seek improvements in their businesses:

- **Globalization:** Retailers are expanding outside of home markets to become regional and even global brands, establishing new economies of scale and driving innovation in merchandizing practices
- **The Internet:** Electronic retailing is growing rapidly, impacting buying behaviors of a growing swath of demographics to shop online for an expanding basket of products, driving the need for omni-channel strategies
- **Competition:** The struggle for market share and awareness is intensifying as large retailers wield buying power, economies of scale and pricing to their advantage, and as online channels attract expanding followings
- **Consumer Preferences:** Seasonality is common, but tastes are changing more often because of greater market transparency (with the Internet) and consumer communication (through social media), complicating merchandizing decisions
- **Shareholders' Expectations:** Demands for better performance are unrelenting, as shareholders reward success with higher expectations on investment returns
- **Workforce Productivity:** Most employees possess modest skill sets and work experience, while part-time workers are increasingly relied upon and staffing churn is high (breaching 40 percent in some cases)

The question, then, is how best to respond to these trends and to position the enterprise for growth and success? A major area of focus is the workforce and how it is compensated and motivated to perform, take initiative and promote the right customer experiences.

## The vital role of Incentive Compensation Management

Fundamentally a company is only as good as its people in executing all functions necessary for a thriving business. This principle is especially the case in retail, where large workforces of variable quality and stability are required to sustain operations. The ability to motivate a critical mass of staff to achieve objectives is a significant advantage to retailers struggling to drive growth rates.

Depending on the area of retail, payroll expenses can rise to and exceed 15 percent of total revenues.<sup>3</sup> With economic uncertainty, such outlays provide a strong impetus for retailers to extract more productivity from each dollar spent on compensation

Incentive compensation management (ICM) plays a central role with such efforts, by systematically defining and rewarding contributions that advance growth strategies. Higher productivity is coaxed from workforces through more intelligent use of outcome-based variable compensation, encouraging achievement of specific goals and retention of valued staff.

A corporate culture of performance can then be entrenched in organizations to help improve sales, customer service and execution of merchandizing programs. With greater labor productivity, the capacity to attain higher rates of growth increases accordingly. Greater returns can then be realized in different channels, physical locations and product categories with similar employee headcounts.

ICM can impact a variety of positions. Along with associates manning stores and servicing consumers, various high value responsibilities merit attention when devising variable compensation strategies:

- **Management:** Align executive performance with shareholder expectations, while regional and store managers are made accountable for merchandizing decisions and results for local markets
- **Marketing and Merchandizing:** Build awareness and brand loyalty, orchestrate advertising and promotions for omni-channel strategies, and improve product assortments, displays and buying experiences
- **Supply Chain:** Control the carrying costs of inventories and ensure retail operations benefit from the latest logistics management and the sourcing of best practices
- **Sales and Customer-Facing Staff:** Elevate customer service quality with the help of assistant managers, selling skills (like cross-selling and up-selling) and overall communication on products at both physical locations and call centers

Ultimately, retailers must cultivate a pool of people, skills and collective experience that is larger than their competitors and more responsive to prescribed strategies and programs. At the same time, greater stability within the workforce needs to be secured in order to mitigate costs associated with churn in staffing.

## What must get done

Retailers must become adept at managing workforces with ICM programs relevant to different roles, lines of businesses, product categories and channels. Implementing and expanding a corporate performance culture based on variable compensation requires strong organizational capabilities around process integrity, transparency, insight and agility.

In retail, large numbers of initiatives need to be managed within the context of key marketing strategies. Retail typically depends on transactional sales of large volumes of products and services (often of low to medium value) by workforces of substantial size. As a result, a stream of promotions and incentives of short duration often have to be orchestrated.

Given the low value of specific rewards, rarely does one incentive, promotion or tactic alone exert much of an impact on an organization's financial results. Therefore a five-point approach should be adopted to implement, modernize, expand and refine ICM programs for the broad, dynamic retail environment:

- **Planning:** Gain a baseline understanding of the opportunities and challenges in using variable compensation, benchmark projected productivity improvements, and define and prioritize programs that will exert the greatest impact
- **Implementation:** Launch compensation programs (including drafting of plans), educate staff on incentives and awards, deploy necessary tools, execute change management and implement approaches
- **Processing:** Deploy systems and applications to accurately compile information (notably transactional and activity data), define and manage compensation rules, and automate calculation and payment processes

- **Monitoring:** Regularly assess the validity of assumptions, track performance levels against plans, audit expenses for variances, gain early warning on favorable and adverse trends, and communicate results to management and staff (particularly commissions statements and recognition of high performers)
- **Updates:** Hone decision making on revising plans, programs and contests; improve responses to performance trends as well as transitions between different incentives and promotions; and cultivate mentoring competencies with assistant store management

## Incentive Compensation Management (ICM) solution

A strong technical foundation is essential for successful execution of ICM programs in retail. This foundation is also required in order to handle the scale and dynamism typically encountered in such environments. The number of people eligible to receive incentives and rewards, known as payees, can get quite large, involving hundreds, thousands, even tens of thousands of employees.

While compensation plans may be relatively straightforward, compensation methods vary. For example, some payees may be on full commission while others may receive only a small percentage of earnings in commissions. Commissions may be based on tiers of sales volumes or based on the sale of a specific product (for example, sell a chandelier and get five percent commission on the transaction).

Employees may be able to participate in contests for non-cash rewards or sales performance incentive funds (SPIFs). And there are bonuses, which can be based on individual or store performance or overall corporate performance.

n the end, technical flexibility is needed to accommodate different compensation tactics, effectively manage different plans, and align ICM programs to marketing campaigns. This flexibility is particularly vital with substantive retailers, who can have up to 70 or more plans and often delegate decision making to regional and store managers (to benefit from local market knowledge).

Technology is also needed to acquire visibility into outcomes and line-of-sight on the efficacy of tactics. Due to the number, frequency and short duration of promotions and incentives, high quality data and analytics are essential to benchmark progress with growth strategies, sales and increasing workforce performance.

A complete ICM solution for retail will offer components for planning, analysis, execution and administration, including:

- **Modeling:** Define and explore all significant factors relevant to proposed variable compensation programs, simulate alternate scenarios with different plan components and perform what-if analyses, and identify optimal formulas, rates and sets of incentives
- **Calculations Engines and Payment Processing:** Automate crediting procedures with calculations engines, collapse processing cycles in running data and large volumes of transactions against prescribed rules and formulas, and forward details on disbursements to systems like payroll and reporting tools
- **Analytics and Forecasting:** Conduct historical, trend and multidimensional analyses; support ad hoc reports and dashboards tracking payouts and key performance indicators (KPIs); utilize predictive analytics; and project future compensation expenses
- **Workflow and Process Automation:** Guide and automate key steps in processes in order to eliminate manual work and increase the speed and rigor of recurring tasks like constructing and updating plans, share documents, handle dispute resolution and provide notifications
- **Administration:** Ensure data is correctly consolidated and cleansed; facilitate oversight of plans and payee details (internal staff and partners); expedite revisions, mass updates to rules, formulas and plan components; activate or retire different SPIFs, incentives, rewards and plan components

## ICM solution benefits

ICM systems yield substantial improvements in process integrity, process efficiencies, transparency and agility. On an enterprise-wide basis, users benefit from systems being:

- **Integrated:** Data, rules, tools and reports are all centralized in one logical place that can be easily accessed and utilized by different roles and departments (such as business analysts, compensation specialists, human resources, finance, and store and regional managers). Data can be automatically moved between systems.
- **Inviolable:** Users acquire an environment focused on eliminating errors by making it easy to efficiently audit and fix potential errors with data and calculations. Moreover, automated integrations with external systems like payroll eliminate points of failure.
- **Secure:** Labor costs are often considered confidential in many retail firms. Solid security is achieved with encryption, monitoring tools (track “who changed what, when”) and standards like SSAE 16 and the ISO 27000 series.
- **A Vehicle for Change:** Clarity on what works and what does not is now possible, while any necessary adjustments can be easily made to incentives, plan components, KPIs and similar instruments. Plan components can also be reused and libraries of best practices on successful methods can be developed.
- **Scalable:** Installations can take on ever increasing demands without allowing performance to degrade. Companies can add staff, business units, processes, new methodologies and tactics, and different products — while still enjoying the same level of performance or better.

## Key takeaways going forward

Sustaining business growth is a paramount concern with retailers, whether expanding a firm's footprint, acquiring greater economies of scale or specializing in differentiating niches. Retailers need to exercise more effective control over operations that are often labor intensive and sprawling.

Of increasing interest is motivating the workforce with outcome-based, variable compensation to drive higher productivity and increase workforce stability. Retailers can build for growth by entrenching cultures of performance and employing incentive compensation management skillfully and consistency.

ICM systems are invaluable in dramatically improving how the necessary analysis, data management and process automation is executed. With ICM tools, successful practices can be replicated, scaled up and revised as businesses change.

In summary:

- Retailers with large workforces must revisit and master the human element within their organizations in order to achieve sustained levels of sales growth
- ICM represents a critical tool for improving workforce management, along with workforce scheduling, in driving higher productivity, aligning staff with marketing programs and increasing an organization's capacity to grow
- ICM systems deliver essential capabilities for rationalizing and automating practices, rapidly processing large volumes of data and transactions, improving transparency and helping management uncover ways to improve workforce performance
- ICM solution initiatives should focus on improving process integrity, process efficiency, business agility in support of promotions and campaigns and transparency into the impact of variable compensation programs

## 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 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

To learn more about IBM Sales Performance Management solutions, [contact your IBM sales representative](#) or visit: [ibm.com/industries/sales-performance-management](http://ibm.com/industries/sales-performance-management).

Footnotes

1. "Global Powers of Retailing 2018: Retail Beyond" by Deloitte.

2. "Occupational Handbook Outlook" by the Bureau of Labor Statistics, <http://www.bls.gov/ooh/sales/retail-sales-workers.htm>

3. "Benchmark Breakdown: Key Metrics On 25 Industries" published by Forbes Magazine, June 29, 2010 ([http://www.forbes.com/2010/06/29/best-in-class-financial-metrics-entrepreneurs-finance-sageworks\\_slide.html](http://www.forbes.com/2010/06/29/best-in-class-financial-metrics-entrepreneurs-finance-sageworks_slide.html))

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