Sales Performance Management
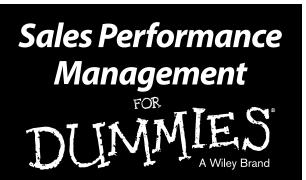
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Learn:

- The importance of SPM

- Key components of an SPM system

- The guidelines to evaluating the right SPM solution

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Sales Performance Management

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IBM Limited Edition

by Brian Underdahl

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Publisher's Acknowledgments

Contents at a Glance

Introduction

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*R*evenue is the lifeblood of every company, and sales teams make sure that the blood never stops pumping. Acknowledging their critically important role, successful companies now actively manage the performance of their sales teams and help them adapt to changing times. Furthermore, sales incentive compensation is very often one of the largest expenses, so effectively managing this line item can have a huge effect on your company's bottom line.

Unfortunately, selling is a complicated endeavor these days, and managing the sales team is even more complicated. Most companies struggle with issues such as compensation errors and overpayments, compensation systems that take too much time and effort to administer, awkward ad hoc reporting, and changing audit and compliance requirements, not to mention the fact that sales people often create their own "shadow accounting" systems to ensure they're paid properly. Addressing these issues ensures that both sales operations and individual sellers spend their time facing outside, to the market, rather than facing inside because they don't trust their own systems and processes.

About This Book

Sales Performance Management For Dummies, IBM Limited Edition, is designed to help you understand the process and meet the challenges of sales performance management (SPM). This book can help you

understand the importance of SPM, key components of an SPM system, and the guidelines to evaluate the best SPM solution that fits your organization's needs.

Icons Used in This Book

This book uses certain icons to call your attention to information you may find helpful in particular ways.

The information marked by the Remember icon is important and therefore repeated for emphasis. This way, you can easily spot note-worthy information when you refer to the book later.

This icon points out extra-helpful information, such as cutting costs or time-saving tips.

This icon marks places where technical matters, such as SPM jargon and whatnot, are discussed. Sorry, it can't be helped, but it's intended to be helpful.

Paragraphs marked with the Warning icon call attention to common pitfalls that you may encounter.

Chapter 1

What You Need to Know about SPM

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In This Chapter

▶ Introducing sales performance management

▶ Considering the three key areas of SPM

▶ Defining the components

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*I*n their quest for growth, companies understand the need to adapt to marketplace dynamics with better aligned sales structures, compensation structures, quotas and objectives, and territory coverage models. As a result, a marketplace for packaged software applications called *sales performance management* (SPM) has emerged to help satisfy demand for more robust automation of sales operations processes and to improve associated planning and analytic disciplines. SPM represents a relatively new market as an outgrowth of efforts to automate variable compensation processing. This chapter introduces you to SPM and shows you the basics and definitions you need to know about the topic.

Understanding the Importance of Sales Performance Management

Sales force compensation is a huge part of the annual operating expenses for most large companies. Unfortunately, calculating incentive compensation remains largely a manual process that takes too much time, produces too many errors, and lags well behind sales activity. The result is that sellers don't trust their compensation process and spend too much time auditing and discussing their grievances with sales operations or finance — time that should be spent working with prospects and customers to drive revenue. This inefficiency creates lost sales opportunities estimated to be the equivalent of 5 to 10 percent of total sales.

SPM systems help organizations better control the entire sales compensation process through automation for better efficiency, fewer errors, and more timely results. SPM systems provide management with analytics and insight into how well a current incentive plan is working as well as accurate projections about the effects of making changes to the current plan.

Considering SPM's Key Areas

To successfully implement an SPM system, it's important to understand the three key areas that are encompassed by SPM. These areas include

- ✔ Managing sales incentives (where most companies start when deploying SPM)
- ✔ Allocating sales resources
- ✔ Building a skilled sales team

In this section, you take a look at each of these key areas.

Managing sales incentive plans

Sales are coin-operated (compensation driven) in most industries with the result that incentive compensation management (ICM) is generally believed to be the main driver of sales performance. As a result, companies almost always start the SPM process by getting their ICM system working properly so they're incentivizing the right behavior and ensuring that their sales reps are spending their time selling instead of questioning what they've been paid.

Allocating your sales resources

If you're a sales manager at a large, growing company, chances are good that territory management and sales crediting aren't your favorite parts of the job. It's easy to see why. Say your organization has introduced some exciting new products and sales are trending up. That's good news, right? Financially, sure. But that success also means that your sales team has grown to keep up with the demand. And along with that growth, the process of setting up and managing territories and crediting has become incredibly complex.

Every day, organizations just like yours are dealing with the exact same frustration. It's all the more maddening because they're probably trying to manage it all with a homegrown software system or even just plain old spreadsheets. Of course, these cobbled-together, manual systems don't help the process. Instead, they lead to errors and poor visibility into crediting processes. But it doesn't have to be this way.

Transforming your territory management and sales crediting management processes begins with a very simple, probably obvious realization: It's all fallout from your sales strategy. Think about it. 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 kinds of customers. You then have to ponder the right types of job roles you need in order to succeed, and what message you want your salespeople to deliver.

Building the right sales team

Building the right sales team begins with recruiting and hiring the right sales people and investing in them through ongoing coaching and training initiatives. Every new sales representative that's brought onboard brings unique skills and selling abilities.

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

Looking at SPM's Components

In this section, you take a more in-depth look at the definitions of SPM components mentioned in the preceding section, and you see better ways to address some common issues.

Managing sales incentives

ICM is clearly extremely important because of its huge financial impact on the organization and your sales force. Unfortunately, most companies rely on spreadsheets for calculating and managing commissions, quota planning, and allocation, as well as for designing and managing sales territories. Using spreadsheets for these tasks makes the entire process far more error-prone and far less transparent.

Dedicated ICM solutions (as opposed to ad hoc spreadsheet models) help simplify incentive compensation management for organizations by increasing accuracy, reducing costs, and increasing sales performance. Compensation administration costs are reduced with the automation of commission calculations. Eliminating slow, costly, and manual administrative processes helps minimize calculation errors that lead to commission overpayments and payment disputes. The result is that sales professionals have extensive visibility into their pay, which reduces the time and effort spent on reconciling commissions. Sales representatives also receive embedded analytics that help them gain insight into their own performance.

Compensation administrators can implement new plans more efficiently to respond to evolving business needs. Analysts can model and better understand the financial impact of incentive programs prior to rollout for more accurate cost management and forecasting. With a detailed view of the entire compensation plan portfolio along with tracking capabilities, organizations can have more control over sales compensation administration as well as meet audit and compliance requirements.

Allocating sales resources

With proper allocation of sales resources, you want to make sure that the right people are assigned to each territory and that they have the correct sales quotas.

Territory management

A good territory management system enables organizations to set up and process territory assignments and sales crediting. It ensures that an organization's sales coverage and deployment model is aligned with corporate objectives and incentive compensation plans. Sales operation staff and managers must be able to create multiple territory assignments, credit assignments, and exception rules that are based on territory definitions, account assignments, and product offerings. Organizational hierarchies such as geography, payee, product, and customer must be easily managed. Managers need to apply over-rides, splits, or adjustments when necessary. Compensation administrators

and sales representatives need to quickly adopt confidence and trust in territory assignments, plan eligibility, and crediting assignments.

Such a system fulfills the following:

- ✔ Streamlines assignments and aligns sales territories with corporate objectives
- ✔ Suits all industries
- ✔ Helps you define, manage, and model your sales territories in one place
- ✔ Enables you to use the data throughout your organization
- ✔ Provides reports to deliver better visibility into your sales territories and coverage gaps
- ✔ Quickly identifies territory and account owners
- ✔ Provides tools to model reorganizations using your existing data

Quota management

A good quota management system enables sales executives, managers, and professionals to more efficiently plan, manage, and distribute quota assignments to meet revenue expectations and increase sales performance. Organizations can model the financial impact of proposed quotas prior to rollout to improve effectiveness and help ensure alignment between sales professionals and corporate objectives. Compensation administrators can build plan logic to include quota attainment levels that are used

in the calculation of commissions and bonus for sales representatives. A quality quota management system does the following:

- ✔ Improves sales quota planning and provides streamlined dissemination of quotas to stakeholders
- ✔ Includes planning, modeling, and forecasting functions

Building a skilled sales team

You need to gain an edge by using data and technology to attract, motivate, and empower top sales talent. Building your sales team encompasses several areas.

Hiring

Building your sales team begins with hiring the right people. You need an SPM system that offers the following hiring-related features:

- ✔ Top sales performers analysis to create an optimal candidate assessment
- ✔ Targeted sourcing to attract preferred candidates to apply for the job
- ✔ Automatic filtering of sales candidates before progressing to interviews
- ✔ Market compensation data to enable a competitive offer

Coaching

Your sales team is the public face of your company. You want that team to be presenting the corporate message, and this means following your organization's sales methodology.

Training

Although some people seem to be born for sales, almost every sales professional can benefit from ongoing training. Your SPM process needs to include

- ✔ Ongoing sales technique training
- ✔ Periodic sessions devoted to introducing new products
- ✔ Formal discussions of new regulatory requirements
- ✔ Meetings to introduce and promote sales incentive programs

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Chapter 2

Seeing the Benefits of SPM Software Solutions

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In This Chapter

▶ Making sure you have alignment with strategy and objectives

▶ Increasing your efficiency

▶ Improving your effectiveness

▶ Being more competitive

▶ Decreasing risks

▶ Providing insight to make better decisions

▶ Modeling and forecasting

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*O*rganizations that are considering moving to a new sales performance management (SPM) system need to know that the time, effort, and expense involved in adopting a new system will be worthwhile. This chapter shows you some of the benefits that you'll gain by moving to a dedicated sales performance management (SPM) software solution.

Aligning with Sales Strategy and Objectives

It's often said, "Show me the sales compensation plan, and I'll show you the sales strategy." So many organizations define and assign their sales territories, allocate sales quota, and rollout their compensation plans before thinking through the sales strategy and objectives. Having a well-defined sales strategy and set of objectives provides the necessary insight for sales operations and compensation administrators to properly implement their sales coverage model, quota assignments, and incentive compensation plans.

With an SPM software solution, organizations can align their sales strategy and objectives in a solution that allows them to track and manage their sales territories, quota assignments and compensation plans. More importantly, an SPM solution can adapt to changes in the sales strategy and objectives.

Gaining Efficiency

The old saying "time is money" has never been more true than it is today. You simply can't afford inefficient methods that waste time or that are error-prone.

Although a spreadsheet may seem like a very familiar tool, remember that spreadsheets are easily modified and can quite effectively hide errors or incorrect assumptions. Attempting to manage your sales performance system using a spreadsheet is something akin to riding a roller coaster without fastening your seatbelt — it might be possible, but it's probably not a very good idea!

Dedicated SPM software solutions improve your efficiency in a number of ways:

- ✔ **Avoiding error-prone, spreadsheet-based processes:** Spreadsheets are easily changed but don't include any sort of change tracking, so even if your model was correct yesterday, it's very difficult to be sure that someone hasn't made an unauthorized modification. In addition, spreadsheets typically don't incorporate any input validation, so a simple typo can introduce hard-to-find errors.

- ✔ **Reducing overpayments:** You want to pay your sales team what they've earned but not any more than that. Overpayments can be very difficult to recover, and once money has been paid to someone, they probably won't be happy about having to return it. In addition, overpayments require investigation and documentation, resulting in even more wasted time.

- ✔ **Shortening cycle times:** A good SPM system enables you to shorten the time between when a sale was made and when the sales rep is paid. This shortened cycle reinforces the connection between the sales effort and the reward, usually resulting in greater satisfaction and a happier sales force. A happy sales team is a motivated sales team that brings in more sales and profit.

Increasing Effectiveness

The right SPM system improves the effectiveness of your sales force in several different ways. For example, enterprises using a top-notch SPM system can sometimes gain between five and six hours a month of selling

time per rep. That's almost as if each sales rep had one extra day per month to be out meeting customers.

A good SPM system also provides increased visibility into sales rep performance so sales managers can track their team's performance and respond much more rapidly.

Additionally, the sales reps are also more effective in cross-selling products to their customers. In fact, the cross-sell ratio nearly tripled in one company that used an SPM solution. This fact alone demonstrates a major benefit of the right SPM system.

Enhancing Competitiveness

The pace of change has picked up markedly in many industries, with rapid fluctuations in supply, demand, and prices becoming the new normal (as well as collapsing product lifecycles). The sooner your people can see what's going on, the faster they'll be able to meet customer needs. A good SPM system provides the insight that enables your team to understand and quickly respond to changing markets.

An SPM system also provides the tools that your sales reps and managers need to deploy more sophisticated sales coverage models. They'll not only have access to predefined reports, but they'll also have the flexibility to do ad hoc reporting and try out various what-if scenarios.

An important part of competitiveness is making sure that you have the right sales team. Keeping that team means paying them competitively. The proper SPM system helps you use modeling to

simulate plan changes so you can see how those changes will affect your sales force. These simulations ensure that any changes you make won't result in alienating your best salespeople.

Reducing Risk

An SPM system can also help you with risk reduction. Every large organization faces many different requirements that must be fulfilled, both internally and externally.

All organizations have internal audit requirements that must be complied with. For example, you need to be able to justify the amounts that different personnel are being paid. An SPM system provides the documentation that shows that you met these requirements.

In addition to internal requirements, your company needs to meet external regulations. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States requires certain businesses to document and justify the compensation that certain levels of employees receive.

Providing for Better Decisions

Sales performance management solutions provide insight through reporting and analytics that allow sales organizations to make better and more informed decisions about the business. Sales managers and executives can gain deep, detailed insight into sales performance and effectiveness such as profit margins, cost of sales, and account penetration in order to drive more effective selling strategies and enhance up-sell and cross-sell opportunities.

Using Modeling and Forecasting

Sales performance management provides modeling capabilities that help users simulate the effects of compensation plan changes or new components prior to roll out in order to optimize sales strategies and reduce risk. By modeling against real historical data, managers can more accurately forecast the payout amounts of incentive programs to control costs.

Chapter 3

Ten Things to Look for in an SPM Solution

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*C*hoosing the correct sales performance management (SPM) solution to fit your organization's needs involves weighing a number of factors. This chapter provides ten guidelines to help you make the right choice.

High Performance

Quite simply, performance really does matter when you're choosing an SPM solution. You can't afford to be held back by a system that's slow or difficult to use. In fact, those two factors alone are enough reason to move from a spreadsheet-based model to a dedicated SPM solution. When calculating and processing incentive compensation for hundreds or even thousands of sales representatives, the SPM solution needs to process large amounts of data from the organization's

CRM, ERP, HR, and other systems. With the complexity of sales crediting, quota assignments, and the measures in the incentive compensation plan, the SPM solution's performance is critical.

In addition to speed and ease-of-use, another element of a high-performance SPM solution is scalability. If you choose a solution that won't grow with your needs, you'll end up wasting your time replacing that solution as your organization expands. Make sure that your SPM vendor offers a solution that can easily grow without demanding deployment of a whole new method of operation.

Flexibility

No two companies are identical. Every organization has its own unique culture and way of doing things that make the company what it is. It's these differences that enable some companies to be more successful than others.

Look for an SPM solution that can easily adapt to the unique requirements of your company's sales procedures and processes. The last thing that you want is to choose a system that requires you to change how your organization operates simply to use the SPM system. Furthermore, it's possible that your current incentive compensation system is working so well that it's driving differentiating behavior between you and your competitors. The last thing you want to do is eliminate that competitive differentiator because your new

SPM system isn't flexible enough to handle your uniquely successful incentives.

Choosing an inflexible and rigid SPM solution not only increases the training and operational costs associated with that system but also will almost certainly result in resistance from your entire sales force all the way from reps to managers.

Usability

You also need to be concerned about basic usability. Make sure that the SPM vendor has put enough thought into the system's user interface so your people will find the solution easy to use.

An intuitive graphical user interface (GUI) that streamlines processes and doesn't require users to consult an operating manual is vital. Make sure that your SPM vendor does a Proof-of-Concept demonstration before you make a commitment. Have several different levels of users try out and comment on the demo before making your decision.

Mobile

There's no question that mobile devices such as smartphones and tablets are an increasingly important part of today's business climate. Some estimates even show that smartphones and tablets outnumber traditional desktop and laptop computers by as much as two and a half to one.

Clearly, any SPM solution that you consider for your organization needs to take into account an increasingly mobile workforce. Either dedicated apps or mobile portals designed specifically to function with smaller screens should certainly be a part of whatever solution you choose.

Although the vast majority of mobile devices can easily access the web, that access often happens through public, unsecured Wi-Fi hotspots. You should consider an SPM solution that provides secure access to your network and systems in order to prevent your proprietary data from being compromised when users login with mobile devices.

Social

More and more users demand and expect social business features in applications. To meet these expectations you want an SPM solution that enables your sales team to collaborate online.

Social business features can improve the productivity of your sales teams by enabling collaboration that can result in faster, better decision making. Instead of requiring a physical meeting or playing phone tag, the sales reps and managers can quickly respond pretty much anywhere they may happen to be. And the discussion is documented within the SPM system so even if someone leaves the company (and his email inbox is erased), you still have the context behind any decisions.

Cloud and On-Premise

Formerly, all of an organization's applications were hosted on premise. Anyone that needed to use one of those applications either had to physically be in the office, or they had to log in from an external site. Increasingly, however, most new applications are hosted in the cloud.

Cloud-based systems offer a number of advantages compared to traditional on-premise systems. Not only are cloud-based systems typically easier to access from remote locations, but they're also usually easier to maintain and ensure that all users are accessing the most current version. Also, cloud-based systems shift the costs from capital expenses to operational expenses, which decreases the upfront investment and more closely aligns benefits of the system with costs.

But even with the great popularity of cloud-based systems, you may not be quite ready to move everything to the cloud today. It's important, therefore, that your SPM vendor understands and supports both on-premise and cloud-based solutions.

Look for an SPM solution that has the same look, feel, and functionality in both on-premise and cloud-based implementations. That way you'll be able to make a seamless move when you decide to transition from one to the other.

Analytics

Make sure that the SPM solution you choose has a comprehensive set of analytical tools built-in. These tools should not only include things like reports, dashboards,

scorecards, and ad hoc reporting but more advanced analytics such as planning, budgeting and forecasting, predictive modeling, and "what-if" scenario modeling.

Easy-to-use analytical tools can help drive sales by empowering your sales people to adapt and work differently. By seeing what's happening and what's possible, the sales team can be incentivized to try even harder.

Upgradable

As new features and enhancements are introduced into the SPM solution, you'll want to upgrade to the latest version. If you choose an on-premise deployment, this upgrade process will be managed internally. Make sure that the vendor communicates to you when a new version is available and that the process of downloading these files is easily accessible, including step-by-step instructions to successfully complete the upgrade. If you choose a cloud deployment, the upgrade process is typically managed by the vendor, however; when the vendor makes a new version of the solution available, it may not align with your internal business processes or make sense to upgrade at that time. You could be in the middle of calculating compensation or perhaps planning and making changes to your sales territories and quotas.
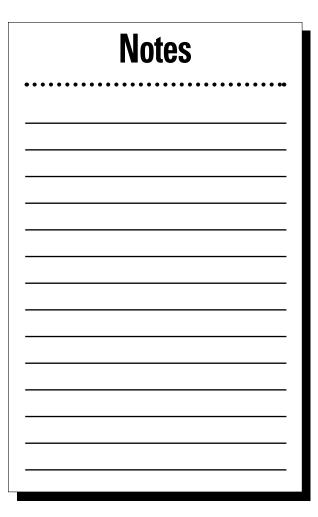
Choose a vendor that will work with you even if it's a cloud deployment where the vendor gives you the choice of when you complete the upgrade process. Making sure that there is appropriate support is also critical if anything goes wrong.
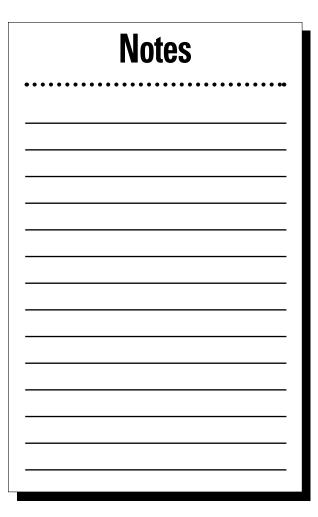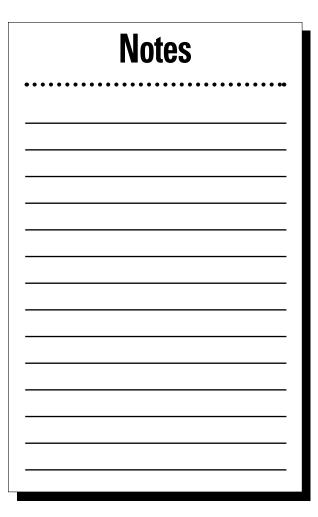
Integration

An SPM solution needs to integrate with many desperate systems across the enterprise. These systems include your CRM, ERP, HR, and Payroll. This integrating includes both upstream and downstream systems. Data from all these systems is needed to align sales territories, determine quotas attainment, and accurately calculate compensation in your SPM solution, which in turn, needs to integrate with your payroll system so the checks can be finalized and distributed. Integration with both upstream and downstream systems is critical to ensure transparency between these systems.

Scheduling & Automation

Many of the activities and tasks performed within the SPM solution are repetitive and can be scheduled and automated to be executed a specific time periods (i.e. hourly, daily, monthly, etc). For example, data transactions are imported at the end of every period, compensation is calculated, reports are generated, and payments are distributed. You want to make sure that the SPM solution can schedule and automate these types of activities and tasks and when anything goes wrong, notify you.

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Manage the performance of your sales teams

This book introduces you to SPM, the importance and key components of an SPM system, and what criteria to consider in choosing the right SPM solution for your organization. Use this book as a reference guide to better manage the performance of your sales team.

- *See the benefits of SPM — improve your effectiveness*

- *Reduce risk — manage internal audit requirements*

- *Gain modeling and forecasting capabilities — simulate the effects of plan changes*

Open the book and find:

- The key components of an SPM system
- Ways SPM can benefit your company
- What to look for in an SPM solution
- Ways to empower your sales people to adapt and work more efficiently

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