Six Trends in Sales Performance Management

Observations for organizations investigating Sales Performance Management

Sales Performance Management (SPM) solutions are proving to be incredibly valuable for organizations that adopt them. Organizations that implement compensation management solutions can expect to reduce errors by more than 90 percent, reduce processing times by more than 40 percent and reduce IT/Admin staffing by more than 50 percent.

SPM solutions are becoming attractive, not only because early adopters are achieving success, but also because there is increasing pressure on compensation teams to deliver more. Organizations are demanding more than just accurate commission statements that are delivered on time. They need visibility, analysis and oversight into the entire variable compensation process; increasingly, they are relying on their sales operations, compensation and cross-functional teams to provide more sophisticated insights into what is working and what is not.

While the majority of organizations still manage incentive compensation with homegrown solutions, or complicated Excel spreadsheets, more organizations are retiring these solutions in favor of a more flexible, customizable and streamlined incentive compensation and sales performance management system. With this rapid SPM adoption, new trends are starting to emerge. This paper discusses the top six trends influencing organizations that are considering the adoption of new software solutions to help them improve sales performance and incentive compensation practices.

Trend 1: Increasing business complexity

In a recent study conducted by the Economist[1], an overwhelming majority of survey respondents (86 percent) think that business has become more complex in the past three years, with many describing their businesses as "chaotic". This increasing complexity is often driven by the reality that organizations produce more products, sell in more market segments, through more channels and with more complex workflow processes. These organizations also have an increased need for speed when it comes to getting results. Adding to this challenge is the fact that many organizations struggle just to keep up with an ever-increasing volume of data. Over the past couple of years, organizations increased the amount of data stored by a staggering 62 percent[2]. With this hectic pace of change, it is easy to see why existing technologies, plans and processes in sales compensation cannot keep up with new requirements.

Many organizations do not expect the rate of change or the ability to capture data to decrease in the coming years. It used to be common practice for organizations to limit plan changes to once every couple of years and certainly not more than once a year. Now, with business cycles compressing, organizations are moving "at the speed of business" rather than on a fiscal year calendar. Many homegrown and spreadsheet-based systems were implemented years ago and were not designed to handle the rate of change, volume of data, expanding product lines and desire for increased analytics, modeling and reporting that today's marketplace demands. Today's compensation systems should be able to process millions of transactions a day, efficiently and effectively, in order to manage sales reporting and incentive compensation calculations.

When considering SPM technology, evaluation teams must consider their requirements to load data quickly, calculate commissions and produce the necessary outputs. They should also estimate, to the best of their ability, data volumes and complexity for the next few years to help ensure that the application is capable of handling those volumes. Organizations looking to implement new systems are well advised to try and determine their performance requirements preemptively and to conduct a scalability and performance test when looking at acquiring new software.

Trend 2: Sales adoption of mobile devices

It is no surprise that sales forces virtually everywhere are adopting iPads, smartphones and other mobile devices. Smart devices are now outselling laptops[3]. It seems almost every week there is a new competitor in the tablet wars. According to some research analysts, the number of users with tablet devices in the marketplace is expected to grow significantly.

These trends are inspiring new questions by sales organizations virtually everywhere.

- What is the appropriate mobile device for the sales team?
- What is the right set of functionality that needs to be delivered to the mobile device?
- How can the features of the device best be optimized to serve the organization's distinct needs?

There are no universally correct answers, and the adoption of mobile technology for sales teams extends beyond the scope of just SPM.

There are three key considerations when it comes to mobile adoption - **Device support**, **functionality**, and **culture**.

Device support – What platform do you need to support? On the tablet side, Apple has an early lead, having secured approximately 68 percent[4] market share of all tablets sold. The marketplace, however, is still young and there is much room for technology advances. Organizations must consider whether they want to take a device-specific approach, or an agnostic approach. Vendors who support standards like HTML5 and browser agnostic support typically offer the most flexibility in tablet support. Applications coded specifically for a platform might have tighter integration with that platform, but will be more limited relative to device support as the marketplace matures and shifts.

Functionality – Once the platform is decided, organizations must determine the functionality they want to deliver on the mobile device. In many SPM scenarios, simply replicating a full desktop or Web experience on a smartphone does not work. Have a look at your current commission statement and imagine how much would be viewable on a Blackberry, Android or iPhone screen. Typically, commission reports are multi-page statements with several columns, and in order to comprehend the entire statement, multiple columns would have to be viewable at once. Organizations are well advised to design reports and outputs specifically for the mobile device, and not to settle for delivering full reporting on mobile devices – just because it is possible.

Culture – This is often overlooked when considering mobile device support. Some sales leaders want to "*get virtually everything on the smartphone and tablet*" to avoid the inconvenience and inefficiency of lugging around laptops, trying to figure out virtual private network (VPN) or other connecting activities. The idea of "right here right now", on-the-go information delivery is far more appealing than waiting for sales reps to connect when they are settled back at home, in a hotel or office. There is another train of thought regarding the sales team's ability to have customer-facing time during the day: the idea of delivering commissions, quota and territory update information constantly and throughout the day is a distraction. Some feel that this kind of information should be delivered to the laptop/desktop when reps are not out in the field.

The overriding trend in mobile device support is that the adoption of mobile technology for sales is directly proportional to the frequency of data updates. Organizations that report on sales and commissions daily are much more likely to want to drive this information out to mobile devices than organizations who update their data monthly or quarterly.

Trend 3: Increasing role of finance

In a recent survey conducted by CFO Research[5], Chief Financial Officers (CFOs) were asked whether the finance function would play an increased role in sales incentive management (including plan design and administration). While many finance departments are already heavily involved, 52 percent of the respondents said they will become even more involved over the next two years.

It is not surprising to see this interest from Finance. In times of economic uncertainty, compounded by the concern about negligible revenue growth, many CFOs are seeking opportunities to improve margins. They are no longer focusing just on cost reduction; rather they want to improve margins by driving sales of the most profitable products and services, not simply by selling more of the high volume offerings.

According to the survey, 61 percent of the Finance team wants to see "*more sophisticated selling*" by their sales teams. Sophistication, in the minds of Finance, means encouraging team selling, bundled offerings, multi-year deals, cross selling, and increased selling of high margin products. They also want to see a tighter link between the setting of quotas and the specific revenue goals of the organization. It is frustrating to see the organization make a strategic decision to try and drive business growth in one area, only to find that the sales plans drive a very different behavior. Reconciling the plans to the strategies can often take over a year, which results in delayed execution of strategy and missed opportunities.

From a Sales Operations/Human Resources perspective, leading "experts" on incentive compensation plan design are encouraging organizations to simplify plans and make sure that incentive plans have as few measures as possible (often stating that best practice plans have no more than three measures).

Finance's drive for more sophistication versus Sales Operations and Human Resources drive for focus and simplification of incentive plans appear to be at odds. One of the best resolutions is to get ahead of the curve. This is a great opportunity for virtually all business interests to converge and share their perspectives on the challenges and high priority items for moving forward.

Successful organizations work with finance not only to agree on the sales plans and drivers, but to agree on timelines, decision making processes, constraints and potentially conflicting viewpoints on plan design, implementation priorities and targets. The combined group needs to come to consensus and then communicate their shared goals across the organization. Failure to do this often leads to different priorities and misaligned goals. In turn this leads to inconsistent and often conflicting communications being delivered to the sales organization. A coordinated effort leads to common goals, sales alignment and increased performance.

Trend 4: Increasing requirements for audit, compliance and visibility

There is an increased need for oversight in the world of Sales Performance Management. There is a growing desire to scrutinize the inner workings of the compensation system and the related processes.

There are two main drivers of this change. First, some organizations are cracking down on the internal audit processes. They are driven by concern of new industry regulations. Many are making sure that they can comply with the changes to incentive compensation brought on by the Dodd Frank Act[6]. In particular, they must comply with section 956 of that Act which states that covered organizations must disclose to the regulators (and there might be more than one in some cases) the structures of all incentive-based compensation arrangements. The intent is that organizations should have plans that appropriately balance risks and rewards, are compatible with effective controls and risk management and are backed up by strong corporate governance and oversight.

The second driver for increased audit and compliance comes from organizations that want to better understand how the sales operations, Human Resources (HR) and Finance processes are working with respect to SPM. They are trying to evaluate the effectiveness and service levels for their key operational processes. How long does it take to process all commissions? How many disputes are filed with each commission run? How long does it take to resolve these disputes? Are commissions tracking toward the agreed targets? Which management reports are being viewed? These are just a few of the questions for which organizations are seeking better answers.

While many organizations have solid incentive compensation plans, documented processes and workflow surrounding compensation, they cannot efficiently and effectively respond to these new demands for reporting and audit. Data from e-mails, conversations and sales-driven exceptions often fail to make their way into the system of record. Hiring more administrative staff or taking a long time to respond to audit requests is not acceptable so many organizations are implementing new incentive compensation management systems to help. As the majority of organizations also use spreadsheets and homegrown systems to manage incentive compensation, the ability to provide the necessary insight also diminishes. Typically, these tools do not provide the robust audit trail, embedded security, role based access and other key features required to pass an audit. With changing and more stringent requirements for increased visibility on the horizon, it is critical to have flexible reporting capabilities in the hands of those who need to provide data to the various oversight groups.

Potential buyers of SPM technology should survey the finance and internal audit groups in their organization to understand their existing needs, and anticipate their needs going forward. This establishes a foundational baseline of requirements when looking for a new system.

Trend 5: Transition to the cloud

Much has been written about the advantages of cloud based computing. It is not that cloud computing is new in 2011, but rather that many large organizations had thought that cloud based computing was only appropriate for small to medium sized businesses. They were concerned that cloud solutions:

- Would not scale to their volumes
- Would take away the ability to control upgrade timings
- Would fail strict security and audit requirements
- Could not offer the flexibility to meet specific and demanding requirements of large enterprises

There are compelling arguments for why cloud based solutions do provide significant benefit. These include:

- Reduced burden on existing, overburdened IT staff
- Faster project start times (avoiding hardware procurement process)
- Reduced initial investment and shared risk pricing model
- Improved vendor support – as they manage the entire hardware/software environment

The good news is that cloud computing has matured; the early adopters have paved the way, and software vendors have expanded their capabilities, offerings and platforms. There are more options available to meet the specific needs of today's complex organization. For organizations that do not want to co-mingle their data, there is a single-tenant cloud solution. For those with security and firewall concerns, there is a new movement toward private cloud deployment. With this flexibility and configurability in deployment options, many organizations are now choosing cloud-based options for new Sales Performance Management implementations.

With the increasing array of options and flexibility in SPM offerings, it is not simply an on-premise versus cloud decision facing organizations. It is much more complex. Project teams are well advised to make sure that they consider both their requirements, and the specific options offered by their short-listed vendors.

Trend 6: Integration with more applications

Traditionally, a lot of Sales Performance Management Systems have been focused on the incentive compensation process. While there can be many (occasionally hundreds) of input sources to an SPM solution, organizations generally consider outputs to be – commission statements, a payroll feed, and few summary reports.

As SPM systems mature, it is more often the case that the SPM system houses the highest quality information in the organization about who is selling what to whom, and at what price. As commissions are paid from this data, it is normally the most scrutinized, up-to-date and accurate information in the company. Organizations want to leverage this asset, typically by demanding new management reports. This quickly moves to requests for more complex and broad-based reporting, often requiring new and different source data. The natural evolution is then to make this information available to an even broader set of recipients. This expansion generally requires feeding data to other systems.

Some common examples are:

- Feed information into a corporate data warehouse or business intelligence system
- CRM integration between commissions and customer data
- HR systems to integrate commission data with other payroll and compensation data
- Enterprise Resource Planning (ERP) system so that this information resides in the original system-of-record

Verifying that your SPM system can pass data to other applications through standard interfaces like Open Database Connectivity (ODBC), Web services and star schema generation allows compensation teams to provide compensation data in virtually any format required by the receiving application.

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1 The Complexity Challenge, How businesses are bearing Up, Economist Intelligence Unit, 2011.

2 EMC annual shareholders meeting presentation.

3 IDC Worldwide Quarterly Phone Tracker, January, 2011.

4 IDC Worldwide Quarterly Media Tablet and eReader Tracker, September 2011.

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