

# Automating incentive compensation for increased productivity and cost reduction



As organizations re-evaluate their compensation strategies in order to adapt to the recent changes in the economy and business landscape, incentive compensation is now top of mind for many Compensation professionals. Companies are trying to reduce the errors, overpayments and amount of effort it takes to manage their compensation processes while also implementing new and different plans that drive the ‘right’ behavior. When incentive plans are managed through complicated and disparate spreadsheets, and the organizational structure, territories and plans are constantly changing, just getting an accurate view of payout results is difficult enough.

A recent survey conducted by Varicent, an IBM Company, revealed that 75 percent of organizations with 1,000-2,500 employees currently calculate commissions using spreadsheets (sometimes in combination with other solutions), and 90 percent of those recipients admitted that they were dissatisfied with this method.<sup>1</sup> The problem with spreadsheets is that it is a manual process, which is slow and prone to error. When senior management is asking to review and modify incentive programs, compensation administration costs shoot up as more manual processes and spreadsheets are layered onto a broken backbone of compensation systems.

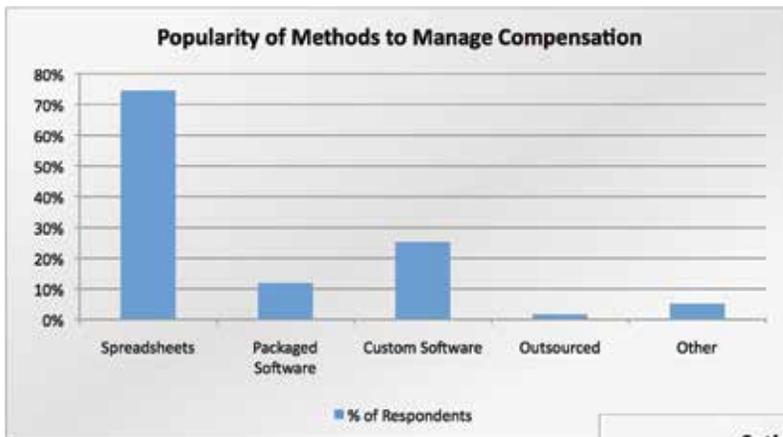


Figure 1: 75 percent of organizations with 1,000-2,500 employees use spreadsheets to manage incentive compensation.



Figure 2: 90 percent of recipients who were dissatisfied with their compensation processes were using spreadsheets.

## Making incentive compensation faster, easier and more accurate

Incentive Compensation Management (ICM) applications are now being deployed across organizations of all sizes and industries to automate calculations and incentive payment processes. Just eliminating the manual number crunching and spreadsheet confusion can have a huge immediate impact on reducing time, cost and risk for almost any incentive compensation process. There is another added benefit. Delivering timely, more accurate and trustworthy compensation data to the sales reps, managers and executives of an organization can significantly reduce the lost time on their part trying to jostle their data, freeing them up for more time selling and meeting with customers. Additionally, with more accurate payout results and comprehensive sales statistics, managers are able to directly correlate compensation and performance metrics in order to better understand and drive employee behavior.

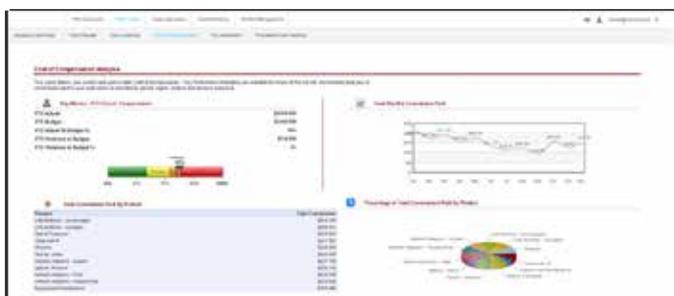


Figure 3: More accurate and comprehensive sales and compensation data enables management to more effectively analyze and drive performance.

## What does automation involve?

The benefits of automation can be seen by following the compensation process:

- **Data collection** – In order to calculate incentives and commissions, sales orders or performance results must first be collected along with the personnel information for the employees subject to variable pay. Typically, this information is stored in multiple, disparate data sources, and is collected and collated manually. Automation not only gathers and combines this data quickly and more accurately, but also helps ensure up-to-date information from sales, finance and Compensation professionals.
- **Calculating incentives** – Compensation analysts often go through a rigorous and time-consuming process to verify the accuracy of calculations each pay period and after modifying any formulas in a spreadsheet. Automating this step is likely to incur more cost savings in terms of overpayment and manual labor from calculation errors and reconciliation.
- **Payout distribution** – A significant amount of manpower is required to personalize and deliver commission statements and payout results. Traditional spreadsheet-based systems avoid this hassle by releasing only minimal information. Eliminating these tedious chores helps enable payees to receive detailed payout results, down to the transaction level, in order to reduce payment disputes and shadow accounting.
- **Workflows** – Plan sign-offs and approvals, inquiries and disputes no longer rely on individual e-mails or phone calls. Rather, documents or communications are centralized and automatically routed to the appropriate parties. An added perk of automating this process is that each event is traceable for better visibility and compliance.

*With Cognos Incentive Compensation Management, organizations can dramatically reduce sales administration costs, more accurately match sales capacity to targets and drive improved sales performance.*



Figure 4: Automating incentive compensation enables commission statements to be personalized and detailed down to the transaction level.

### Building for the future

Although the short-term benefits are usually the main drivers of automating incentive compensation, the long-term usability of an ICM application almost always outweighs the immediate cost savings and productivity gain. Since calculations are constructed with simple, consumable components and not embedded within complicated spreadsheets, compensation analysts are able to quickly and more easily modify plans for the upcoming quarter or half year. Also, with a comprehensive and validated view of sales performance versus incentives paid, managers have access to the critical business metrics that help them drive employee behavior to support the strategic goals and objectives of the enterprise.

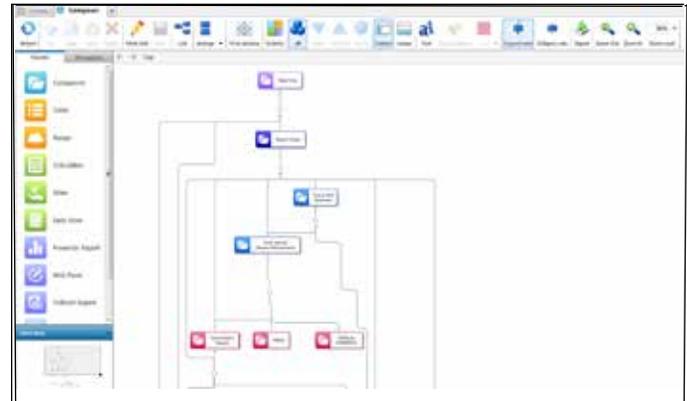


Figure 5: With an added intuitive graphical view of plan structure and calculations, Compensation professionals can quickly adjust pay components to capture upcoming business opportunities.

### Taking control of compensation spend with ICM

At a time when cost reduction and employee efficiency are top priorities, automating incentive compensation offers a higher return in less time. Eliminating calculation errors due to manual processes reduces compensation overpayment and generates immediate cash flow for the organization. Productivity is drastically increased for not only the compensation and benefits team, but also for employees receiving variable pay, as payouts are validated and traceable. Most importantly, corporate performance can be linked directly to compensation in order to analyze and improve variable pay and incentive programs.



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