

Conversations on Incentive Compensation:

The value of technology in managing sales incentive compensation



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This recent recession has forever changed the dialogue about the role of risk in business management and in particular, incentive compensation. The sales compensation model is under such intense scrutiny from government regulators, shareholders and the marketplace, it is no wonder that concern over corporate results has led to heightened interest in protecting the company against excessive risk in incentive plans. The implicit value of technology in helping to mitigate and ultimately significantly reduce these risks has emerged as a priority focus for concerned and pro-active Chief Financial Officers (CFO's) and Chief Executive Officers (CEO's).

The responsibility for sales compensation

Who is responsible for the management of sales compensation? While it is indeed a multidisciplinary role, a recent research report, "Managing Sales Incentive Compensation Amid Uncertainty"¹, released by CFO Research Services reveals that the majority of respondents (52 percent) indicate that finance will play more of a role in managing sales incentive compensation – including plan design as well as administration – over the next two years. As the leader of risk management in the company, finance is increasing its involvement in the management of sales incentive compensation because of their ability to improve sales decision-making and to help ensure that the company strikes the right balance between increasing revenue and maintaining profitability. However, in spite of this shift, respondents are skeptical of finance's administrative aptitude, such as timely incentive payments, accurate incentive payments and minimizing disputes.

The spreadsheet legacy

Despite widespread adoption of automation for many functions within human capital management and finance, sales incentive compensation largely remains a manual process. Spreadsheets, legacy, and home-grown applications continue to be the tools of choice. However, these solutions were not designed to handle the complexities of modern sales incentive compensation programs or deliver the flexibility corporations need to manage risk. According to survey results², most companies (54 percent) still use a combination of spreadsheets, e-mail, and manual processes to manage sales incentive compensation. However, some companies have adopted technology to help manage their sales incentive plans – 19 percent use a module of an existing financial application, 13 percent use something that is custom-built, and 5 percent use a packaged application designed specifically for incentive compensation management.

The survey³ reveals that three quarters of the companies that adopted incentive compensation management solutions say that technology has made a positive contribution to their ability to manage compensation effectively, compared to only 28 percent of their peers who use spreadsheets and manual processes. Furthermore, the survey results show that 83 percent of companies expect this technology to contribute positively to sales force performance through an ongoing assessment of the plans' effectiveness, through fine-tuning the plan and through its administrative accuracy and efficiencies.

Outdated methods of spreadsheets and emails simply do not offer these sophisticated capabilities, and position CFO's poorly for risk management processes. Joe Clarkson, North America Practice Leader of Towers Watson's Sales Effectiveness and Rewards, explains that, "As finance executives prepare themselves to take on a more prominent role in managing sales incentive compensation, the results of this survey confirm that many will look to technology

improvements to help them reach their sales performance improvement goals.⁴ He further adds that, “Incentive compensation management technology often facilitates the emerging needs of the business that the compensation program has to support. It’s been my observation that sticking with old technology and tools quickly becomes an anchor that slows down your ability to align your sales compensation plans with your newly emerging business needs and selling behaviors.”

When to take the technology plunge

As finance executives evaluate their existing systems, there are leading indicators that can signal when the time is right to consider new technology. Specifically, companies should look for the following signs in a self-assessment:

- A high level of administrative burden for calculating sales incentives correctly and distributing accurate and timely information to an increasing number of stakeholders.
- Increased complexity of incentive compensation strategies and lack of transparency into compensation data and calculations, which in turn fuels a rapid growth in the volume of questions from a sales force struggling to understand how they are getting paid.
- High turnover rates within compensation departments as a result of long work hours and “burn out” factors.
- High usage of IT resources for day-to-day administration and annual or marketplace driven plan changes.
- Inability to align sales incentive compensation strategies and plans with corporate goals and objectives as a result of system limitations, along with a resulting negative impact to sales force productivity by taking time away from selling.
- Significant volume of inquiries coming from the sales force that are focused either on a lack of transparency to the data or disputes over sales incentive payments.

These indicators can help finance executives to gauge whether it is time to consider automating their incentive compensation processes.

Whenever a new technology is rolled out that affects people, there is often an inevitable resistance to change, even if the old system was incredibly frustrating, cumbersome or unreliable.

The typical experience for the sales force is the roll out of a Customer Relationship Management (CRM) system, which requires significant data entry and the “giving up” of personal data ownership to corporate data ownership. But this should not impede the decision-making process. Joe Clarkson points out that, “The great message about incentive management technology is that it generally requires no input or time consumption from sales people; its benefits should be all good news to sales people – data visibility, ongoing tracking against goals and target incentive, access to reports, detailed incentive statements.”⁵

Building for the future

Without a doubt, improving the performance of sales professionals is a top priority as companies begin to see the economy stabilize and look to take advantage of a financial upturn. Even in anticipation of an investment in an automated technology solution, there are strategies that companies can embrace to help reduce risk and improve sales performance.

Bruce Jackson, Vice President Solutions at Varicent, an IBM Company, points out that, “A growing trend is the movement away from paying the sales force a straight percentage of top-line revenue to sales incentive compensation plans that promote specific corporate goals. This shift requires a high degree of flexibility to create and modify multiple plans within a single year.”⁶ Jackson advises that one of the things Finance can do is look at the plan design and administrative business processes to evaluate where simplifications can be made. “Simplification of plan designs and business processes will not only reduce the administrative burden and high costs associated with plan development and maintenance, but will ensure that effective plans and processes are implemented once the technology investment is made.”

Ultimately, the prospects for the future can be brighter with the introduction of new, cutting edge and automated technology solutions that allow for the sophisticated management of complex sales compensation plans while maintaining visibility, transparency and speed.

About Varicent, an IBM Company

Varicent Software Incorporated, an IBM company, is a global pioneer in Incentive Compensation and Sales Performance Management that delivers innovative, industry-leading solutions for finance, sales, human resources and IT departments in high-performing companies across industries. Varicent solutions streamline administrative processes, maximize efficiencies and drive improved sales performance. In addition to ranking in the top 5 two years running, in the PROFIT 100 list of Canada's Fastest Growing Companies by PROFIT Magazine, Varicent was named the highest overall "hot" vendor in the Ventana Research 2011 SPM Value Index.

For more information

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1 A report prepared by CFO Research Services in collaboration with Varicent, an IBM Company, "Managing Sales Incentive Compensation Amid Uncertainty", March 2010

2 Ibid, March 2010

3 Ibid, March 2010

4 Ibid, March 2010

5 Ibid, March 2010

6 Ibid, March 2010



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