



The NetCommissions Advantage **White Paper Series**

THE ROI VALUE PROPOSITION



**The economic case for the NetCommissions secure, on-line Sales
Incentive & Commissions Management solution**

Overview

NetCommissions created this white paper to answer the following question:

"What will be the tangible benefits of an investment in the NetCommissions secure, on-line sales commissions management solution?"

The answer to this question is that such an investment will dramatically improve the productivity of your sales force. This white paper explains in detail how these productivity gains occur and is broken down into the following sections;

- Improve Top Line Revenue
- Reduce Operating Expenses
- Summary
- About NetCommissions
- Appendix A – Case Study

Improve Top Line Revenue

Time is your sales team's most valuable resource. Success and failure often hang in the balance as sales reps allocate their efforts to activities they feel will bring them, and their companies, the highest benefit. Improvements to top line revenue measures the annual increase in revenue that can be attributed to increasing the time each rep spends selling, as well as the effect of a clearer focus on selling a product mix that is aligned with corporate goals.

- More time selling
Sales Commissions are notoriously inaccurate. Ask any rep if they double check their commissions check and many will brag about the elegance of the spreadsheet based system (macros and all) they created to validate their sales credits and commission checks. You can bet that the time spent performing this activity (often call 'shadow accounting') takes away from selling time. Who can blame them? The productivity penalty of this situation is enormous. Research indicates that sales rep's will spend up to 5% of their time, or one day a month, shadow accounting¹.
- Improved alignment
A selling organization whose selling activities are well aligned with corporate goals will focus closely on the product mix being sold. Sales commissions are used proactively as a means of rewarding sales that are complementary to that strategy.

This is a common need for companies with the following:

- Dynamic product lines struggling to manage product life cycles (introduction through obsolescence) of multiple product lines
- Multiple divisions trying to optimize the efforts of sales forces by encouraging more 'cross-selling'
- Just completed or are planning an acquisition
- Looking to encourage sales of the most profitable product lines
- Sales forces with Strategic Account Teams

- Reduce turnover

An important aspect of higher employee retention is avoiding the productivity hit as new sales people ramp up the learning curve. Maintaining the excellence of your high performing sales agents is an often-overlooked benefit of an investment in sales commissions automation. Often, it is the high performers that are making the most money who have the most to lose from an error prone system. Thus, it is usually these high performers that will seek employment elsewhere if they do not trust the company's sales commissioning system. It typically takes a new sales rep 6-9 months to ramp up to maximum productivity.



The NetCommissions Advantage

NetCommissions delivers timely and accurate commission payments and communications to sales.

- Eliminate the need for 'shadow accounting' by building trust in the accuracy of your incentive compensation process.
- Increase the payout frequency to your sales force by leveraging the NetCommissions Incentive compensation technology and infrastructure
- Build trust throughout the organization by providing access to full details behind each agent's commission payment through secure on-line web reports.
- Enables automated resolution of disputes and handling of adjustment requests.

Reduce Operating Expenses

Analysts¹ estimate that the errors associated with manual off-line sales commissions systems run between 3-8% of total incentive payouts. These errors can take two forms; underpayments or overpayments. Eliminating these payment errors can have dramatic, far-reaching, benefits.

- Reduce underpayment

Underpayment of sales commissions is the driver of the shadow accounting practices within sales forces. Eliminating these errors can drive operating expenses down by greatly lowering the level of manual dispute resolution and exception handling required. There are cases of sales managers paying a "finders fee" to analysts that help them track down sales for which they should be receiving credit. Needless to say, the sales team is not focused on achieving corporate objectives while engaged in these activities.

- Reduce overpayment

This can be a hard dollar cost savings from day one amounting up to 4% of total incentive compensation dollars. Many projects for sales forces over 100 reps get funded on this cost savings alone. Commission overpayments tend to go largely under reported as sales reps are less apt to complain when their commissions check is too high. When they are discovered, recapturing these funds can and may become contentious.

Payment errors also have costly downstream ramifications;

- Eliminate 'shadow accounting'

When one day a month is accumulated across a large percentage of the entire sales force, the cost involves not only lost sales, but also wasted salary investments. The cost hit is significant and can add up quickly. (5% of sales base payroll in some cases).

- Reduced sales force turnover

According to recent survey², the cost to replace a sales agent is over \$110K¹. These costs include legal fees, recruitment fees, time invested by company personnel in the recruitment process, lost time during a search, and training costs. Any investment by the company that improves trust, morale and reduces turnover will quickly accrue benefits to the company.

- Eliminate single point of failure

Sales organizations will often rely on one or several analysts with very distinct responsibilities to support the sales incentive compensation process. Peers in the field commonly describe these analysts as superhuman. They need to know how to handle exceptions, enforcement of corporate policies & procedures, as well as the nuances of each sales person's territory and comp plan. In addition to these insights, they also need to know who to talk to when the quarter is about to close and things break down and.

Unfortunately, the qualities that make them superhuman also place the company in a very vulnerable situation. Job changes, promotions, medical leaves, etc. are a fact of life and something management needs to plan for proactively. What does a company do if such a critical person is no longer available? The penalty to a company can include a spike in calculation errors, delayed payments, inadequately handled exceptions, protracted reconciliations and a breakdown of the process to near chaos.

A recent survey by Accenture³ of 800 executives confirms the advantage of working with NetCommissions;

- 86 % of respondents credit outsourcing with **increasing their sense of control over business results** in a variety of critical areas, most important being the ability to plan.
- 55% of those surveyed say that outsourcing allows their companies to implement strategies at a more controlled rate
- The most common control gains cited by executives are:
 - Improved planning abilities - 47%
 - Greater reliability of business information - 39%
 - Reduced spending levels - 39%
 - Improved cost variability - 38%
 - Stronger grasp of business outcomes - 37%
 - More effective implementation of ideas - 33%
 - Increased revenue - 32%

- Focus staff on strategic efforts

Manual processes that are driven by desktop spreadsheets and custom built off-line applications are labor intensive. The trap is that analysts get bogged down administering the process as opposed to focusing on increasing the strategic value of the sales commissioning process. Once beyond 'the tipping point', incentive compensation becomes looked upon as an entitlement throughout the organization rather than the energizing force it should be.

- Reduced paper, telcom and material costs

The cost to produce and distribute paper based management reports, commission statements and transaction details, including supplies, postage charges and telecom expenses are all reduced through improvements brought through an investment in NetCommissions.

Summary

According to Joe Galvin of the Gartner Group, "Sales organizations that fail to execute reporting and payment of incentive commissions in a timely and accurate manner will decrease sales force productivity by 20 percent because of lost selling time, reduced motivation and the absence of organizational trust (90% probability)."¹

The sales force of the 21st century must be able to react to shifts and emerging market opportunities faster than ever before. Incentive compensation is a strategic tool that enables sales teams to react quicker than competitors to these changes, but only if the correct systems, technologies and skill sets are in place. NetCommissions can help.

About NetCommissions

NetCommissions provides organizations with secure on-line sales commissions management solutions. We are incentive compensation process and technology experts focused on performing the 'heavy lifting' involved with automating and administering this process so our customers can focus their attention on driving sales growth.

The NetCommissions family of solutions (including Reporting, Plan Management and Workflow) is offered in a modular fashion to allow you to address improvements to whatever elements of this process your business demands and budget allows.

Reporting

NetCommissions offers the most advanced Reporting Solutions available including self-service portal, on-line web reports and data administration. This service has been crafted to meet the unique communication needs of high achieving sales forces.

Plan Management

Once your sales compensation plans are implemented and deployed on the NetCommissions infrastructure, you simply send us your data and we 'crunch' the numbers and generate results including commission reports and feeds to downstream systems such as payroll. By outsourcing the process automation, administration and communication of your sales commissioning needs to NetCommissions, your organization is free to focus on driving sales growth. Consider NetCommissions your IT department for this application.

Workflow

NetCommissions Workflow solutions automate such activities as alerts, notifications, approvals, individual goals, quota collaboration and much more allowing you to automate what are currently labor-intensive, error-prone activities.

Appendix A: A NetCommissions On-Line Sales Commissions Management ROI Case Study – Abbreviated Version

This case study analysis evaluates the effect of an investment with NetCommissions for a company's with a 100 person sales force as well as a 500 person sales force.

An even more conservative estimate based solely on cost savings yields a breakeven of 4.6 months for a 100 person sales force (or a one year ROI of 260 %) and a breakeven of 4.9 months for a 500-person sales person sales force (or a one year ROI of 245%).

The case study summarizes the benefits from two elements of sales productivity improvements; improved revenue and decreased operational expenses.

Assumptions

Sales headcount	100	500
Revenues	300 Million	1,500 Million
Sales Commissions as a percentage of Sales	10%	10%
Commission error rate	2%	2%
▪ Overpayment rate	1%	1%
▪ Underpayment rate	1%	1%
Percentage of sales reps 'shadow accounting'	50%	50%
Time spent each month by each rep 'shadow accounting'	0.5 Day	0.5 Day
Salesperson cost per year (at quota)	120K	120K
Effect on revenues of improved product mix sold	1%	1%
Reduced Turnover	1%	1%
Cost to replace sales rep	110k	110k

NetCommissions Benefits: Improve Revenues

More selling time (# of reps x % of reps shadow acct x time)	3.6M	18M
Reduced turnover (sales not lost due to decreased turnover - subjective)	750K	3.75M
Improved Alignment	3M	15M
Subtotal	7.35M	37.75M

NetCommissions Benefits: Reduce Operating Expenses

Reduce overpayments (error x total commissions)	300K	1.5M
Eliminate 'shadow accounting' - recapture of lost of salary (salary x hours not selling)	147K	
Reduced sales force turnover (training, legal, ramp-up, recruitment fees)	110K	550K
Eliminate single point of failure	Subjective	Subjective
Focus staff on strategic efforts	Subjective	Subjective
Reduced paper, telcom and material costs	20K	80K
Subtotal	577K	2.13M

NetCommissions Costs

Implementation fee (one time) estimated	25K	150K
Yearly subscription fee (yearly) estimated	48K	235K
Subtotal Year 1	72 K	385 K

Investment Analysis for 100 person sales organization – Year One

If we examine the return based **on operating expense savings alone;**

Total Benefit – 577 K

Total Cost – 72 K

ROI Payback period – 1.5 months

ROI - 800%

Investment Analysis for 500 person sales organization – Year One

If we examine the return **based on operating expense savings alone;**

Total Benefit – 2.13M

Total Cost – 0.385M

ROI Payback period – 4.9 months

ROI – 550 %

Of course, the ROI is even more impressive when the positive impact on revenue is considered.

The greatest economic benefit to a company investing in the NetCommissions sales commissions management solution is clearly derived by improvements to the productivity levels of the sales organization. It should be noted, however, that most investments in NetCommissions can be justified through cost savings alone with breakeven timelines measured in months and one year ROI above 245%.

¹ Joe Galvin, *Sales ICM Systems: Ready for Prime Time*, Gartner Research, November 8, 2001

² Hewitt Associates, *Hot topics in Sales Management*, 2000

³ Accenture, *High Performance Outsourcing: Gaining Control through Outsourcing in the Manufacturing and Consumer Industries*, 2003