A Forrester Total Economic Impact™
Study Commissioned By Varicent
January 2019

The Total Economic Impact™ Of Varicent Sales Performance Management

Cost Savings And Business Benefits
Enabled By Varicent SPM

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ABOUT FORRESTER CONSULTING

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

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Executive Summary

Benefits

Improved accuracy of payments:

90%

Reduction on shadow accounting:

60%

Reduction on time spent on payout process:

65%

Reduction on time spent on auditing and compliance:

80%

Reduced time spent on implementation and rollout of variable compensation plans:

75%

Varicent Sales Performance Management (SPM) provides variable compensation teams with a centralized solution to manage incentive compensation plans. Varicent commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential ROI enterprises may realize by deploying SPM. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of the SPM solution on their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed several customers with years of experience using SPM.

Prior to using SPM, the customers typically managed compensation plans through a combination of several siloed legacy systems and spreadsheets. The entire payout process, from the creation of compensation plans, the collection of necessary data, calculating payouts, and resolving inquiries, disputes, and exceptions was highly manual and error prone. Because data was siloed and spread across numerous solutions, sales reps spent significant amounts of time on shadow accounting instead of selling.

With SPM, organizations are able to increase the accuracy of their variable compensation payments, better align compensation plans — and as a result, the sales organization — with their overall business strategy, and increase sellers' motivation and effectiveness by improving visibility to compensation plans.

Key Findings

Quantified benefits. The following risk-adjusted present value (PV) quantified benefits are representative of those experienced by the companies interviewed:

- **Reduced time spent on payout processes.** The centralization of data and the automation of several administrative tasks around the payout process helped reduce the time variable compensation teams spend on the payout process by 65%. The increased visibility provided by SPM, as well as access to in-depth dashboard for sales reps reduced the number of inquiries that compensation teams receive by over 90%. In addition, these inquiries are now easier to solve because compensation administrators can more easily access all of the relevant information they need with SPM.
- **Reduced time spent on implementation and rollout of variable compensation plans by 75%.** The automation of tasks, along with the centralization of information, scenario modeling, and other tools provided by SPM, helps organizations cut down on the time required to roll out new variable compensation plans. Furthermore, organizations are better able to easily simulate and build models to better understand the implications of plan changes prior to rolling it out to the organization. Additionally, Varicent is making investments to provide AI capabilities to sales inquiries to further reduce the time spent on administrative tasks.

ROI
242%

Benefits PV
$10.1 million

NPV
$7.2 million

Payback
7 months

- **Improved accuracy of payments by 90%.** Prior to investing in SPM, the payout process was highly manual; as a result, it was very error prone and brought a degree of distrust to the payment process. With SPM, the payout process has been automated, reducing the likelihood of errors, the need for manual edits, and increasing the accuracy of payments.

- **Reduced shadow accounting by 60%.** In their legacy environment, sales reps did not have adequate visibility into their variable compensation plans, where the data was coming from, and how their variable compensation was calculated. Due to this black-box environment, sales reps calculated their payments on their own to ensure that compensation was calculated correctly. With SPM, sales reps have more visibility into their plans and how their variable compensation is being calculated, reducing the need for shadow accounting.

- **Reduced time spent on auditing and compliance by 80%.** Prior to SPM, organizations spent significant amounts of time compiling information from various, disparate legacy systems, spreadsheets, and emails; this created a difficult and time-consuming process to prepare for an audit event. With SPM, relevant audit information has been centralized into one location, and the organization can use SPM's built-in audit tracking features to further streamline the process, creating a significant time savings around auditing and compliance needs.

Unquantified benefits. The interviewed organizations experienced the following benefits, which are not quantified for this study:

- **Increased sales from improved visibility into compensation plans and results.** As sales reps gain more visibility into their compensation plans and their trust in the compensation system increases, they are able to be more efficient in their selling efforts. In addition, the increased visibility and ability to better analyze sales data enables compensation administrators to better evaluate the effectiveness of compensation plans and make data-driven decisions on how to improve those plans.

- **Increased sales from marginal performers due to improved coaching.** The increased visibility SPM provides sales management helps them to better understand where and how sales reps overperform or underperform and helps build the opportunity for improved coaching. Sales managers are also able to leverage the capabilities of SPM to monitor outliers and poor sales practices to reduce conduct risk.

- **Increased sales from quickly implementing targeted incentives.** Organizations are able to utilize the flexibility and agility of the SPM platform to align their compensation models with their corporate strategy.

- **Reduction in sales turnover reduces risk of unmet sales opportunities**. With SPM, sales teams are better able to understand their plan, clearly see how they are being paid, how they can overperform, and are less likely to leave their position due to frustration tied to understanding their compensation plan or being paid improperly.

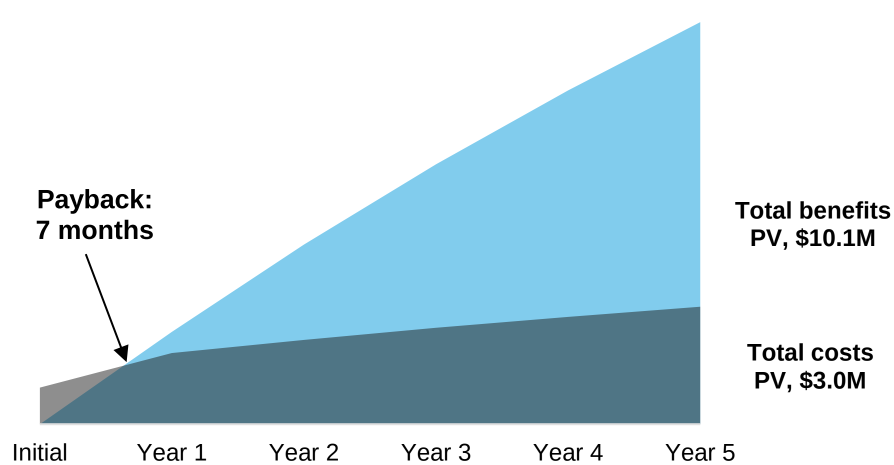
- **Future benefits from continuous delivery model**. Though still early in the adoption of SPM's continuous delivery model, interviewed organizations expect that they will see faster compute times, further reduction in the number of inquiries they receive by leveraging AI capabilities, and easier update cycles through SPM's move to continuous updates. In addition, the interviewed organizations were eager to test out the new reporting and workflow capabilities.

Costs. The composite organization created for this case study experienced the following risk-adjusted PV costs:

- **Cloud licensing fees and administration costs of $1.5M.** The composite organization incurs a yearly cloud licensing for their 2,000 licenses, as well as 18% annual administrative and support costs.
- **Implementation and planning costs of $562.5K**. The composite organization dedicates five FTEs to plan for the implementation of the SPM solution.
- **Professional services totaling $640.0K.** During the initial phase, the composite organization purchases professional services to help guide planning and the development of the initial rollout of SPM. In the following year, they continue to use professional services to support finalizing rollout and training activities. It is important to note that many customers become self-sufficient and manage their own model and SPM implementations without any need for ongoing professional services.
- **Training costs of $217.2K.** The composite organization runs 4-hour training sessions for its sales staff. Initially, the organization trains 500 sales employees, and then in the following year the remaining 1,500 sales employees are given the same training.

Forrester's interviews with seven existing customers and subsequent financial analysis found that an organization based on these interviewed organizations experienced benefits of over $10.1 million over five years versus costs of $2.95 million, adding up to a net present value (NPV) of $7.1 million and an ROI of 242%.

Financial Summary



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TEI Framework And Methodology

From the information provided in the interviews, Forrester has constructed a Total Economic Impact™ (TEI) framework for those organizations considering implementing Varicent SPM.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that Varicent SPM can have on an organization:

The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

DUE DILIGENCE
Interviewed Varicent stakeholders and Forrester analysts to gather data relative to SPM.

CUSTOMER INTERVIEWS
Interviewed seven organizations using SPM to obtain data with respect to costs, benefits, and risks.

COMPOSITE ORGANIZATION
Designed a composite organization based on characteristics of the interviewed organizations.

FINANCIAL MODEL FRAMEWORK
Constructed a financial model representative of the interviews using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewed organizations.

CASE STUDY
Employed four fundamental elements of TEI in modeling Varicent SPM's impact: benefits, costs, flexibility, and risks. Given the increasing sophistication that enterprises have regarding ROI analyses related to IT investments, Forrester's TEI methodology serves to provide a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Varicent and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the report to determine the appropriateness of an investment in Varicent SPM.

Varicent reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

Varicent provided the customer names for the interviews but did not participate in the interviews.

The Varicent Sales Performance Management Customer Journey

BEFORE AND AFTER THE SPM INVESTMENT

Interviewed Organizations

For this study, Forrester conducted three interviews with Varicent SPM customers. Interviewed customers include the following:

INDUSTRY	REGION	INTERVIEWEE	NUMBER OF SALES EMPLOYEES
Financial services	Global, headquartered in North America	• Commissions manager, VP • VP	300
Mass media	North American	• Director of business information systems • Director shared services	5,000
Bank	North American	VP, business systems	1,700

In addition, in a previous case study conducted in 2016, Forrester interviewed the following or organizations:

INDUSTRY	REGION	INTERVIEWEE	NUMBER OF SALES EMPLOYEES
Flooring manufacturer	Global, headquartered in North America	Manager, corporate compensation	2,000
Financial services	North American	Corporate compensation manager	2,200
Medical technology	North American	Director of sales operations	2,500
Bank	North America	Variable compensation manager	4,200

Please note, while many organizations interviewed had 5,000 or fewer sales employees, Varicent Sales Performance Management (SPM) supports organizations of all sizes, up to more than 35,000 sales employees, and focuses on scaling to fit each customers' needs.

Key Challenges

The interviewed organizations struggled to meet the needs of their sales employees and the organization as a whole. Interviewees shared the following challenges and drivers they faced prior to their investment in SPM:

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- **Variable compensation teams struggled to meet growing business needs with their legacy solutions**. Interviewees explained that there was a growing desire to optimize compensation plans by: analyzing historic data to derive insights, piloting new plans, and changing plans more frequently and faster than before. However, the legacy solution sets lacked the capabilities to meet these growing needs. The director of business information systems explained the challenges that compensation teams were having: "Our custom-built commission tool was very rigid and difficult to change. As our business wanted to change compensation plans to be more agile, we were slow to keep up with those demands because the system took too long to update."

  Due to the rigidity of the legacy compensation systems, collecting data, calculating payouts, running reports, resolving payment inquiries and disputes required substantial amounts of manual labor and were considerably error prone. For example, the VP of commissions explained how difficult it was for their team to provide sales teams with payout reports: "We have 40 territories and each territory doesn't want to know what the other is doing. So, we had to create secure files with password protection. It was a very cumbersome, manual effort that was also risky — there was the risk that we would email the wrong file to the wrong sales team." Creating these reports required a three-person sales team dedicating one to two weeks of time to create. The interviewed organizations hoped to find a solution that better supported the growing needs of their business by reducing the labor spent on administering compensation plans.

- **Organizations struggled to manage compensation plans across different systems and geographies.** Interviewed organizations shared that their previous environments included multiple sales regions, each region maintained several compensation plans across several solutions. Organizations found it nearly impossible to truly understand and gain visibility and insights into their entire compensation process due to this siloed structure. The VP of business systems explained that: "There were three primary plans in the branches. Each one was being managed by a different system, none of which were working well."

  Having multiple compensation systems presented the variable compensation teams with several challenges: first, compensation teams had to manage these redundant, local systems. Second, since compensation data was so siloed, with no easy way of consolidating the data from each system, organizations lacked full visibility into their organization; this caused the third challenge, that the interviewed organizations were not able to fully analyze their data to gain actionable insights into how to improve their compensation and bonus plans. Because of these difficulties, tasks like testing new plans were prohibitively time-consuming given this decentralized configuration. The interviewed organizations wanted a solution that would centralize their compensation plans on one system and enable their compensation teams to focus on optimizing those plans.

"People in the business wanted us to do things that we weren't able to do prior to SPM. Now we can give them their reporting, the data they want — we can add in short-term promotions, we can change the rate, and we can add bonuses, which weren't really able to be done before due to the large amount of manual effort."

Director of shared services, mass media

- **The sales team lacked transparency into their compensation, resulting in shadow accounting and distrust in the system.** The interviewed organizations' legacy systems made it difficult for sales teams to easily understand and verify that they were being paid properly; this caused several problems for the organization.

  Since sales reps didn't trust their compensation numbers, they spent hours of their time on shadow accounting. The director of shared services explained that after a commission or bonus was paid out: "Sales reps spent several hours going through their numbers with finance. And finance complained that they could be spending all day reviewing commissions." This lack of trust meant that variable compensation teams had to spend considerable amounts of time resolving compensation disputes.

  The time spent on shadow accounting was time that sales reps were not spending on selling, the director of shared services went on: "A high percentage of our sales force would spend several hours on shadow accounting. The main concern [with our previous solution] was that people were not out selling, they were calculating their own payouts and talking with finance." This reduced the overall profitability of the organization because they were not maximizing their sales teams' potential.

  The VP of business systems summarized both problems as follows, "The amount of time that was being spent [on our previous solutions], particularly with people not being comfortable that what they were seeing was accurate, and all the time that was spent on shadow accounting meant that they had to come up with a better way."

  The interviewed organizations wanted to create a system that their sales reps could trust so that they would spend less time on shadow accounting and more time selling.

- **Legacy systems failed to meet internal and external auditing requirements.** The VP of commissions explained that their previous solution set of spreadsheets and a database management system were flagged as both security risks and audit concerns since, "[Our previous solutions] could have easily been hacked or overwritten." In addition, the VP of commissions explained that the outputs of these solutions weren't clear enough to adequately audit: "After everything was calculated, somebody had to go in and create PDFs of the statements. They were flat files, so you could not drill down into those files for full transparency." These flat files, with no record of changes or information detailing who was modifying what, presented a substantial audit risk. These interviewed organizations sought a solution that would reduce their security posture and meet internal compliance mandates.

"We were looking for a system that could provide timely accurate payouts and the necessary transparency to make sure that people would feel comfortable."

VP of business systems, bank

"On paydays where we pay out commissions, there would be a line outside the sales managers' doors. People would be asking: 'How did you calculate this? I have a different amount.'"

VP of business systems, bank

Solution Requirements

The interviewed organizations searched for a solution that could:

- Increase transparency and reduce shadow accounting.
- Provide visibility across the organization, including, sales, finance, HR, operations, and any other relevant business unit.
- Reduce the amount of labor needed to calculate payout plans.
- Consolidate existing solutions and provide a complete picture of the sales organization.
- Provide capabilities to analyze compensation plan effectiveness while highlighting any outliers that increase risk.
- Provide a platform to analyze and maximize compensation and bonus plans.
- Meet both internal and external audit requirements.

"We are now able to efficiently generate timely, accurate payouts and provide the transparency necessary for those payouts for people to feel comfortable they're being paid correctly. That's what it's all about."

VP of business systems, bank

Key Results

After a thorough RFP process to evaluate potential solutions to support the variable compensation team, the interviewed organizations selected to engage with Varicent and implement the Sales Performance Management solution. The interviews revealed that key results from the SPM investment include:

- **Improved operations to create a more effective and efficient variable compensation process.** By implementing Varicent's SPM solution, these organizations were able to improve the processes of both creating new incentive compensation plans and the payout process, reducing the time spent in each. They were also able to drive more effectiveness in the process by reducing overpayments to the teams, improving the organizations' bottom line. The director of shared services explained that their organization had experienced: " . . . better payout efficiency and effectiveness, but I would say that the primary driver here, is the sales efficiency and effectiveness — this tool has given them what they need so they can understand what they're getting, how they're getting it, and focus on what we want to focus on, as a company."
- **Improved transparency bolstered sales effectiveness.** SPM improved sales reps' visibility into their variable compensation data, providing trustworthy data that is easily accessible and at the granularity needed to understand how and where they earn money. Sales reps can easily get a clear breakdown of their compensation and bonuses, their plans, a summary of their earnings, and much more through the SPM dashboard. The sales teams now spend less time calculating out their own variable compensation and more time on selling activities. In addition, the *what-if* capabilities in the SPM dashboards help sales reps understand what they need to do to achieve their goals. As one organization reported about their sales teams: "Before, they were keeping their own spreadsheets to say that the legacy tool was right or wrong. I can't even imagine the wasted hours of reporting that they tried to do on their own. But now, they don't have to; it's updated every day, and it's right at their fingertips." This improved transparency also made it easier to:

"We need our salesforce to be out there selling and have the confidence that they're going to get paid for what they're selling. This tool has helped them understand what they're getting and why they're getting it. SPM has taken them away from tracking their own compensation and helped them to focus on selling."

Director of shared services, mass media

- **Manage sales teams more easily.** The increased visibility not only creates more motivated sales teams, but, as the interviewed organizations discussed, it also makes it easier to manage the sales teams. Not only do the sales people know what they need to do to hit their targets, but their managers can see what the team as a whole needs to do in order to hit their goals. Spending more time on reporting has enabled new insights to improve the coaching and training these teams are receiving, and helps the sales managers understand where they need to focus to drive growth. As we heard from the healthcare manufacturer, "They know exactly what they need to do to hit those quarterly target numbers, a lot more than they did before." SPM has helped improve sales effectiveness across the organizational chart.

› **Reduced compensation inquiries and increased visibility enabled compensation administrators to focus on generating business value.** The decrease in shadow accounting has meant that compensation administrators can shift their time from explaining compensation structures to sales people to value-add activities. For example, the VP of business systems explained that: "The drop off [in compensation inquiries] was huge. We went from 18 inquiries down to one or two a day." This, coupled with the time savings from creating compensation plans meant that compensation administrators could spend more time analyzing data, adjusting compensation schemes, and other value-add work. The VP of business systems explained how his organization was able to reallocate administrator time: "We've been increasing the amount of analytics around incentives. We can also provide really high customer service levels to our new hires. We understand that the plans in some cases are complex and now we can afford just a little more time handholding new employees through those plans."

> "We can make changes based on business decisions or economic trends or economic changes or whatever the reasons are probably within a day or within a couple of weeks, sometimes a month. Whereas before, it might have taken three or four months to make that change."
>
> *Variable compensation manager, bank*

› **Optimized payment plans to align with corporate strategies** The consolidation of data into one centralized location, coupled by the time savings provided by SPM, meant that organizations could now optimize their compensation plans. The director of shared services explained: "Before all the [150] different markets had their own P&L and their own leadership. Everybody was looking at what they thought would be best way to cut costs and grow revenue, but it was hard to get consistency across all of our markets because everybody only knew what they knew." By adopting SPM, interviewed organizations were able to:

> "Our leadership can see if we're paying correctly for what we want to drive. [Varicent's SPM] has allowed us the visibility to make business decisions."
>
> *Director of shared services, mass media*

- **Leverage historical data to inform future actions**. The director of business information systems explained: "With the deployment of SPM our organization has been able to leverage historical data in order to tell regions that we believe you're overpaying here, or maybe you're underpaying here, or ask them: 'When we have made a change like this in the past, have we seen different performance?'" This kind of analysis wouldn't have been previously possible since that historical data was spread out and siloed through 150 different sales regions.
- **Pilot new programs.** The increased visibility and efficiency gains provided by SPM allowed the interviewed organizations to test pilot new compensation schemes. Before SPM, the interviewed organizations lacked the full visibility to conduct these tests and had to spend most of their time maintaining

existing plans — or it was deemed prohibitively time-consuming to run these tests.

- **Align compensation models with corporate strategy.** A key advantage that organizations noted from their investment in SPM was the new flexibility and agility to quickly change sales plans to focus on changing company goals. With the SPM, these organizations told us how they gained the ability to efficiently create new incentive plans that focused on the organization's business and sales priorities: "We can make changes based on business decisions, or economic trends, or economic changes, or whatever the reasons are, probably within a day or a couple of weeks, sometimes a month. Whereas before, it might have taken three to four months to make that change. The agility is huge." Another organization reported: "We are able to execute changes in the incentive compensation plan so much faster. Before, we needed a lead time of three to six months. Now, I can change the entire model within a month and also model what the implications are a lot faster." Through their investment in Varicent's SPM solution, these organizations were able to better support changes in their corporate strategy.

> "The new compensation plans, and the tweaks to existing compensation plans, that we've been able to make with SPM, has paid for this project."
>
> *Director of business information systems, mass media*

› **Met internal and external audit requirements.** By adopting SPM, the interviewed organizations were able to assuage security concerns from internal audit teams as well as external audit requirements. For example, the VP of business systems described the difference that SPM made in the bank's ability to meet FDIC (Federal Deposit Insurance Corporation) audits: "It would not have been possible [to meet FDIC audit requests] with our previous solution, but with SPM we were able to easily provide everything because all the data was in one place." The VP of business systems explained that with SPM, "every time we have undergone an FDIC audit, they have expressed satisfaction with our reports and have been impressed by how easy it is to audit our system."

> "It would not have been possible to meet FDIC audits with our previous solution set."
>
> *VP of business systems, bank*

Composite Organization

Based on the interviews, Forrester constructed a TEI framework, a composite company, and an associated ROI analysis that illustrates the areas financially affected. The composite organization is representative of the seven companies that Forrester interviewed and is used to present the aggregate financial analysis in the next section. The composite organization that Forrester synthesized from the customer interviews has the following characteristics:

Key assumptions:
- $2.2 billion in revenue
- 12,000 employees
- 2,000 sales staff
- $9.9 million in annual variable compensation

Composite Organization

Description of composite. A US-based organization with annual revenues of $2.2 billion. They have 12,000 employees, with a sales staff of 2,000. The organization's total annual variable compensation is 4.5% of their annual revenue, or $9.9 million dollars annually. Of that annual variable compensation, 15% is made up of commissions paid on a monthly basis, and 85% is made up of bonuses paid on either a monthly, quarterly, or annual basis depending on the employee. The variable compensation team is made up of six employees, four who focus primarily on commissions and two who focus primarily on bonuses. Prior to their investment, the organization largely managed their variable compensation using several outdated legacy solutions and spreadsheets. This burdensome process was largely manual. The compensation team struggled to ensure the information was correct and spent so many hours on the payout process itself, that they lacked the time to pursue more strategic compensation strategies to support the needs of the business.

Deployment characteristics. Based on the learnings collected from our interviews, the composite organization spent many hours upfront understanding their data, their business needs and requirements, and planning their business rules for their variable compensation plans. They did this to ensure a successful development period and launch. Working with Varicent, the composite organization selected a cloud deployment to maximize their scalability and flexibility with the system. The cloud deployment allowed them to rely less heavily on their scarce internal IT resources, which were already spread thin. This also meant they did not need an upfront investment in additional infrastructure. After the planning period, the first phase of the rollout was for 500 of their 2,000 users. The following year, they completed the rollout to all 2,000 salespeople.

Analysis Of Benefits

QUANTIFIED BENEFIT DATA AS APPLIED TO THE COMPOSITE

Total Benefit								
REF.	**BENEFIT**	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**TOTAL**	**PRESENT VALUE**
Atr	Reduced time on payout process	$217,132	$217,132	$217,132	$217,132	$217,132	$1,085,659	$823,101
Btr	Reduced time on implementation and variable compensation plan rollout	$14,229	$14,229	$14,229	$14,229	$14,229	$71,145	$53,939
Ctr	Improved payment accuracy	$1,425,600	$1,461,240	$1,497,771	$1,535,215	$1,573,596	$7,493,422	$5,654,586
Dtr	Reduction in shadow accounting	$885,658	$885,658	$885,658	$885,658	$885,658	$4,428,288	$3,357,339
Etr	Reduced time on auditing and compliance	$12,442	$12,442	$12,442	$12,442	$12,442	$62,208	$47,163
Ftr	Reduced spend on legacy systems	$0	$63,720	$63,720	$63,720	$63,720	$254,880	$183,622
	Total benefits (risk-adjusted)	$2,555,060	$2,654,420	$2,690,951	$2,728,395	$2,756,104	$13,384,930	$10,113,124

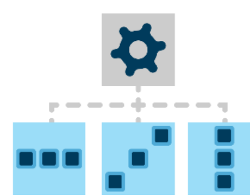
Reduced Time On Payout Processes

Before implementing Varicent's SPM solution, the variable compensation team spent significant amounts of time on a variety of administrative tasks around the payout process. These tasks included data collection, plan modification plans, payout calculations (which includes gathering data on sales, commissions, performance ratings, and processing any exceptions and making those adjustments), reporting on these results, and resolving payment inquiries and disputes. As discussed previously, these were highly manual tasks that were burdensome, time-consuming, and, as the data was often in disparate systems and spreadsheets, left a lot of room for human error.

With SPM, the composite organization is able to cut down on the time spent on payout tasks through the automation of these processes. All the information they need for the payout process is in the one central solution of SPM, cutting down not only on the time spent going between systems and spreadsheets, but also on the likelihood of an error occurring due to this.

With this reduction in time spent on these processes, the variable compensation team can spend more time on value-added activities to deliver better reporting and analysis to the organization. With the improved solution, the team can now handle more data, more compensation plans, and more employees.

The table above shows the total of all benefits across the areas listed below, as well as present values (PVs) discounted at 10%. Over five years, the composite organization expects risk-adjusted total benefits to be a PV of more than $10.1 million.



Reduced time spent on payout process:

65% more efficient

For the composite organization, Forrester assumes that:

- The variable compensation team is made up of four compensation administrators and two bonus administrators responsible for the payout of commissions and bonuses. There are 12 commission cycles each year, and there are 17 total bonus cycles each year (made up of one annual, four quarterly, and 12 monthly bonus cycles).
- Prior to the investment in SPM, the average time spent on each commission cycle was 125 hours, and the average time spent on each bonus cycle was 17 hours.
- With SPM, the composite organization is able to streamline the process associated with bonus and commission payouts, reducing the time spent on the process by 65%.
- The composite organization received over 3,800 inquiries a year from sales regarding their payouts. Each ticket inquiry took an average of 45 minutes time to resolve. In total, the organization spent 2,907 hours on resolving inquiries.
- With the improved payout accuracy and improved transparency provided by SPM, the composite organization now receives under 400 inquiries per year. In addition, the increased transparency and reporting features provided by SPM decrease the average time to resolve an inquiry from 45 minutes to 30 minutes. The organization now spends 194 hours annually on resolving inquiries.

Reduced number of inquiries:

90% fewer inquiries

The savings from reduced time spent on payout process will vary with:

- The size of the variable compensation team.
- The number of payout cycles.
- Time spent on compensation and bonus cycles.
- Number of payout inquiries received.
- Average fully burdened salaries for compensation administrators.

To compensate for these variances, this benefit was risk-adjusted and reduced by 10%. The risk-adjusted total benefit resulting from reduced time spent on the payout process over the five-year analysis period was $489,861.

Impact risk is the risk that the business or technology needs of the organization may not be met by the investment, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for benefit estimates.

Reduced Time On Payout Process: Calculation Table							
REF.	**METRIC**	**CALC.**	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**
A1	Total number of compensation administrators	Interview/ average	4	4	4	4	4
A2	Average time spent on each commission cycle by each admin before SPM	In hours	125	125	125	125	125
A3	Average fully loaded hourly salary of compensation administrator		$36	$36	$36	$36	$36
A4	Number of commission cycles each year	1 cycle per month	12	12	12	12	12
A5	Average time spent on each bonus cycle by each admin		4	4	4	4	4
A6	Total number of bonus administrators		2	2	2	2	2
A7	Total number of bonus cycles	1 annual + 4 quarterly + 12 monthly	17	17	17	17	17
A8	Average fully loaded hourly salary of bonus administrator		$36	$36	$36	$36	$36
A9	**Total spent on commission payouts**	**A1*A2*A3*A4**	**$216,000**	**$216,000**	**$216,000**	**$216,000**	**$216,000**
A10	**Total spent on bonus payouts**	**A5*A6*A7*A8**	**$4,896**	**$4,896**	**$4,896**	**$4,896**	**$4,896**
A11	Percent reduction in time spent on payout process		65%	65%	65%	65%	65%
A12	**Reduced time spent on payout process**	**(A9+A10)*A11**	**$143,582**	**$143,582**	**$143,582**	**$143,582**	**$143,582**
A13	Time spent on inquiries before SPM	In hours	2,907	2,907	2,907	2,907	2,907
A14	Time spent on inquiries after SPM	In hours	194	194	194	194	194
A15	**Value of time saved on inquiry resolution**	**(A13-A14)*A3**	**$97,675**	**$97,675**	**$97,675**	**$97,675**	**$97,675**
At	**Reduced time spent on payout process**	**A12+A15**	$241,258	$241,258	$241,258	$241,258	$241,258
	Risk adjustment	↓10%					
Atr	**Reduced time spent on payout process (risk-adjusted)**		$217,132	$217,132	$217,132	$217,132	$217,132

Reduced Time On Implementation And Variable Compensation Plan Rollout

In addition to saving time on individual payout cycles, the composite organization also saved time on implementing and rolling out variable compensation plans. Prior to its investment in Varicent's SPM solution, creating a new compensation plan, modelling out the full implications of the plan, and, implementing and rolling it out to the sales organization took significant amounts of time. With SPM, the entire process of creating new plans is streamlined. The automation of tasks, the centralization of information, and the built-in modeling features provided by SPM helps the composite organization cut down the time required to roll out new plans by 75%. Furthermore, the composite organization is better able to easily simulate and build models to better understand the implications of plan changes prior to rolling it out to the organization. Additionally, Varicent is making investments to provide AI capabilities to sales inquiries to further reduce the time spent on administrative tasks.

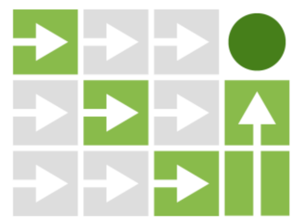
Based on the experiences of the interviewed organization, Forrester assumes that:

- Prior to adopting SPM, four compensation administrators spent 125 hours annually on creating, implementing, and rolling out commission plans.
- Prior to adopting SPM, two compensation administrators spent 60 hours each year on creating, implementing, and rolling out bonus plans.
- With SPM, the variable compensation team is able to reduce the time spent on creating, implementing, and rolling out commission and bonus plans by 75%.
- A fully loaded hourly salary of $36 for a compensation administrator was used.

This benefit may vary based on:

- The hours spent on these processes prior to implementing SPM.
- The number of compensation and bonus administrators at an organization.
- The average fully loaded salaries for compensation and bonus administrators.

To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a five-year risk-adjusted total PV of $53,939.



Improved efficiency around creating, modeling, implementing, and rolling out new plans:

75% more efficient

Reduced Time On Implementation And Variable Compensation Plan Rollout: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
B1	Number of hours spent creating, implementing, and rolling out commission plans by each compensation admin before SPM		125	125	125	125	125
B2	Total number of compensation administrators		4	4	4	4	4
B3	Average fully loaded hourly salary of compensation administrator		$36	$36	$36	$36	$36
B4	Number of hours spent creating, implementing, and rolling out bonus plans by each bonus admin before SPM		60	60	60	60	60
B5	Total number of bonus administrators		2	2	2	2	2
B6	Average fully loaded hourly salary of bonus administrator		$36	$36	$36	$36	$36
B7	Percent reduction in time spent on payout process		75%	75%	75%	75%	75%
Bt	Reduced time spent on implementation and rollout of variable compensation plans	((B1*B2*B3)+(B4*B5*B6))*B7	$16,740	$16,740	$16,740	$16,740	$16,740
	Risk adjustment	↓15%					
Btr	Reduced time spent on implementation and rollout of variable compensation plans (risk-adjusted)		$14,229	$14,229	$14,229	$14,229	$14,229

Improved Payment Accuracy

One of the most important benefits to the bottom line for the composite organization is the improved accuracy of payments. Prior to investing in SPM, the payout process for the composite organization was highly manual: data had to be manually pulled from multiple systems into a spreadsheet and only from there would they be calculated. Due to the highly manual nature of this process, the composite organization encountered errors along the way that resulted in overpayment of commissions and bonuses to its employees. With SPM, the composite organization is able to improve the effectiveness of the payout process; the payout process is now automated, reducing the need for manual edits. As a result, the accuracy of their payments has increased.

Reduction in overpayment errors:

90% more accurate

To calculate this benefit, Forrester assumes:

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- The composite organization has an annual revenue of $2.2 billion and experiences an annual growth rate of 2.5% each year.
- The annual variable compensation payout is 4.5% of annual revenue.
- Prior to implementing the SPM solution, the composite organization had an average overpayment each year of 2% of its total annual variable compensation payout.
- With their investment in Varicent's SPM solution, the composite organization reduces the overpayment errors by 90%.

The improvement in accuracy of payments will vary with:

- Variable compensation payouts.
- Overpayments before SPM.

To account for these risks, Forrester adjusted this benefit downward by 20%, yielding a five-year risk-adjusted total PV of $5,654,586.

Improved Payment Accuracy: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
C1	Annual revenue of organization	Annual growth rate of 2.5%	2,200,000,000	2,255,000,000	2,311,375,000	2,369,159,375	2,428,388,359
C2	Total annual variable compensation payout	4.5% of annual revenue	99,000,000	101,475,000	104,011,875	106,612,172	109,277,476
C3	Average overpayment	2% of annual total payment	1,980,000	2,029,500	2,080,238	2,132,243	2,185,550
C4	Percent reduction in overpayment errors		90%	90%	90%	90%	90%
Ct	Improved accuracy of payments	C3*C4	$1,782,000	$1,826,550	$1,872,214	$1,919,019	$1,966,995
	Risk adjustment	↓20%					
Ctr	Improved accuracy of payments (risk-adjusted)		$1,425,600	$1,461,240	$1,497,771	$1,535,215	$1,573,596

Reduction In Shadow Accounting

Another key benefit experienced by interviewed organizations is the reduction in time spent on shadow accounting, i.e., their variable compensation by sales reps. Prior to implementing SPM, the composite organization's sales teams spent time each month calculating out their own variable compensation to either support or challenge the commissions and bonuses they were receiving. In their legacy environment, the sales reps did not have visibility into their variable compensation plans, where the data was coming from, and how their variable compensation was calculated. Because of this lack of

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transparency, sales reps calculated their payments on their own to ensure that their compensation was calculated correctly.

With the SPM solution, each sales rep has visibility into their plan the data, and how their variable compensation is being calculated. SPM has greatly increased the trust the sales reps have in their compensation plan, and they now spend less time tracking their pay, and more time selling.

To calculate this benefit, Forrester assumes:

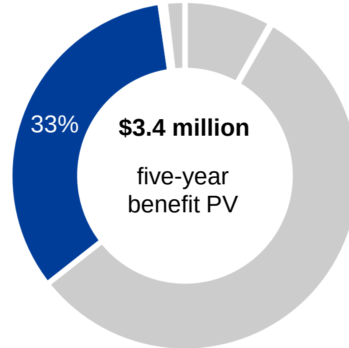
- Each of the composite organization's 2,000 sales employees spend an hour per month on shadow accounting activities prior to the investment in SPM.
- To understand the cost of an hour per month lost on shadow accounting activities, Forrester takes into consideration not only the average salary of a sales rep, but the cost of the lost sales opportunity tied to that hour not spent on selling. To calculate that number, Forrester looked at the annual gross margin of the organization and divided that by the number of sales people and the average hours worked per year.
- After adopting SPM, sales reps reduce their time spent on shadow accounting by 60%.

The value organizations will recognize from a decrease in shadow accounting will vary based on:

- The time spent on shadow accounting before adopting SPM.
- The size of sales staffs and their fully burdened salaries.
- An organization's annual gross margin.
- Adoption rates of SPM by sales staff.

To account for these risks, Forrester adjusted this benefit downward by 20%, yielding a five-year risk-adjusted total PV of $3,357,339.

When considering this calculation, organizations should also consider the impact on sales opportunities that the SPM solution brings to the organization. With this increased visibility, sales teams better understand where to focus their time in order to maximize their incentive pay and are more motivated to do so; coupled with the fact that SPM enables the organization to quickly and efficiently create incentive plans that put the focus on the organization's sales priorities. SPM creates an environment that enables the composite organization to better drive growth — while not directly quantified here, this means that organizations can see an improvement in sales. Forrester urges organizations to consider the financial benefit this could have; the *Unquantified Benefits* section provides a framework for understanding and calculating how these benefits could impact your bottom line.



Reduction in shadow accounting: **33%** of total benefits

Reduction in shadow accounting: **60% time saved**

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Reduction In Shadow Accounting: Calculation Table							
REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
D1	Number of sales staff		2,000	2,000	2,000	2,000	2,000
D2	Average time spent annually on shadow accounting	1 hour per month	12	12	12	12	12
D3	Average hourly salary		$24	$24	$24	$24	$24
D4	Cost per hour of a lost sale	Annual gross margin/total number of sales/ hours per year worked	$52.88	$52.88	$52.88	$52.88	$52.88
D5	Total cost of shadow accounting before SPM	D1*D2*(D3+D4)	$1,845,120	$1,845,120	$1,845,120	$1,845,120	$1,845,120
D6	Percent reduction in shadow accounting		60%	60%	60%	60%	60%
Dt	Reduction in shadow accounting	D5*D6	$1,107,072	$1,107,072	$1,107,072	$1,107,072	$1,107,072
	Risk adjustment	↓20%					
Dtr	Reduction in shadow accounting (risk-adjusted)		$885,658	$885,658	$885,658	$885,658	$885,658

Reduced Time On Auditing And Compliance

Another key benefit of the investment in SPM was the reduction in time spent gathering information for each audit event. Prior to the investment in SPM, our composite organization spent many hours gathering information from various systems, spreadsheets, and emails for auditing and compliance. The process of keeping track of changes involved a paper trail that was not easy to manage. Now, with their investment in SPM, the process of getting ready for an audit event — whether an internal or external audit activity — is streamlined. The composite organization uses the built-in features of the SPM solution for audit tracking, which automatically keeps track of activities and changes and creates audit logs and compliance resources that are easily accessible.

Reduction in time spent on audits:

80% reduced time

To calculate this benefit, the model assumes that:

› Prior to the implementation of SPM, the composite organization spent an average of 120 FTE hours gathering auditing and compliance information for each auditing event.

› An average of four auditing events each year, or one each quarter, between internal and external audits.

› Based on the experiences of our interviewed organizations, our composite organization cuts down the time spent on each audit event by 80% with the investment in SPM.

The improvement in auditing and compliance will vary with:

- The number of internal and external audits performed.
- An organization's existing ability to comply with audits and compliance requirements.
- Auditing and compliance requirements by vertical industry.

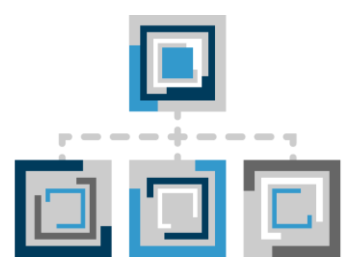
To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a five-year risk-adjusted total PV of $47,163.

Reduced Time On Auditing And Compliance: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
E1	FTE hours spent gathering information for auditing and compliance needs per audit before SPM		120	120	120	120	120
E2	Number of audit events per year		4	4	4	4	4
E3	Average hourly salary		$36	$36	$36	$36	$36
E4	Percent reduction on time spent on auditing and compliance needs		80%	80%	80%	80%	80%
Et	Reduction in time spent on auditing and compliance needs	E1*E2* E3*E4	$13,824	$13,824	$13,824	$13,824	$13,824
	Risk adjustment	↓10%					
Etr	Reduction in time spent on auditing and compliance needs (risk-adjusted)		$12,442	$12,442	$12,442	$12,442	$12,442

Reduced Spend On Legacy Systems

Prior to using Varicent's SPM solution, the composite organization largely managed their variable compensation using several outdated legacy solutions and spreadsheets. With their investment in SPM, the composite organization reduces the spend associated with the software and infrastructure of the legacy solutions, as well as the cost of maintaining these solutions.



Legacy systems savings:

$183,622

In modeling the savings of decommissioned legacy systems, Forrester assumes:

- Annual legacy software and infrastructure spend of $60,000.
- Average annual maintenance costs are 18% of the legacy systems.

The savings of decommissioned systems will vary by organization due to:

- Hardware and licensing fees associated with legacy systems.
- Costs associated with maintaining legacy systems.

To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a five-year risk-adjusted total PV of $183,622.

Reduced Spend On Legacy Systems: Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
F1	Cost of legacy solution	Software + infrastructure		$60,000	$60,000	$60,000	$60,000
F2	Cost of maintaining legacy solution	18%		$10,800	$10,800	$10,800	$10,800
Ft	Reduced spend on legacy systems	F1+F2	$0	$70,800	$70,800	$70,800	$70,800
	Risk adjustment	↓10%					
Ftr	Reduced spend on legacy systems (risk-adjusted)		$0	$63,720	$63,720	$63,720	$63,720

Unquantified Benefits

In addition to the benefits laid out above, Forrester has created an additional set of benefits around the impact on sales and sales uplift for you to consider. These top-line impacts are important when considering an investment in Varicent SPM. While the above calculations focus primarily on process efficiency and effectiveness, the benefits in this section highlight the increased revenue potential and additional cost savings an organization can achieve through improving sales efficiency with the SPM solution. These benefits include:

- **Increase in sales from improved visibility into compensation plans and results.** SPM improves the visibility, trust, and understanding of sales compensation plans across sales associates and management. The increased visibility and trust means that the sales teams are spending more time on selling activities and less time on trying to understand their compensation plans and payments. In addition, with this improved visibility comes an increased understanding of where a salesperson currently stands against their quota, and what they need to do to achieve or overperform on that quota. The sales team becomes more efficient in the opportunities they pursue. As we heard from one organization, “The elimination of shadow accounting allows the sales force to get more time back, and they are able to spend their time doing a lot more selling.” We also heard that: “This is really about visibility, transparency, and simplistic understanding of how one is paid and quick insight into performance. Sales reps are driven individuals that want to quickly see the impact of their work.” In addition, the increased visibility and ability to better analyze sales data enables compensation administrators to better evaluate the effectiveness of compensation plans and make data-driven decisions on how to improve those plans. All these factors could lead to a potential increase in sales across the organization.
- **Increase in sales from marginal performers due to improved coaching.** Not only does SPM increase the visibility, trust, and understanding for individual sales people, but SPM also provides sales management with better visibility into the overall team performance. This increased visibility helps sales management to better understand where and how salespeople overperform or underperform, helping build the opportunity for improved coaching. With dashboards that

Average annual sales quota per rep

x

Percent increase in sales due to added visibility

x

Number of sales reps

Increase in sales from improved visibility into sales plan

Total number of sales reps

x

Percentage of sales team missing quota

x

Percentage of salespeople missing quota that can be improved with additional coaching

Increase in sales from marginal performers due to improved coaching

highlight key metrics, sales management can pinpoint areas of weakness and intervene to help marginal performers to improve their sales process with the ultimate goal of increasing sales results. Of interest here is a particularly compelling note one organization made: "This is useful not only for the managers to see how their sales force is performing, but you are also able to do some comparative rankings at the sales rep level to motivate through competition. The concept of gamification is also an added aspect that can be added here. You can envision awarding points based on sales performance or new customers." With SPM, sales managers are able to to quickly and easily monitor outliers and poor sales practices to reduce conduct risk.

- **Increase in sales from quickly implementing targeted incentives.** We discussed earlier how companies utilize the flexibility and agility of the SPM platform to align their compensation models with their corporate strategy. Many organizations take advantage of this inherent agility to quickly implement sales incentives that drive a certain behavior or highlight a certain product with their sales teams. As one organization put it, "This is a large one — quick implementation of spiffs and quick changes are huge."[1] Using SPM to build out these plans and deploy them quickly not only helps drive new priorities it also increases sales.

- **Reduction in sales turnover reduces risk of "unmet" sales opportunities**. Earlier we discussed how sales employees are more satisfied when they have this understanding of their sales plan and compensation model. When they do not understand their sales plan, or feel they are not being paid properly, a sales person is more likely to leave, leaving an organization with an unfilled quota-carrying position. With SPM, the sales team is able to understand their plan, clearly see how they are being paid, how they can overperform, and are less likely to leave their position due to frustration tied to understanding their compensation plan or being paid improperly. When considering the overall benefit of an SPM implementation, consider the impact that sales turnover has on your overall sales numbers — it takes time to fill that position, to get a sales person ramped, and to get them selling. By implementing a solution that reduces frustration around the compensation model, an organization can reduce the sales rep turnover rates. Note that there are additional costs to consider here — this calculation does not take into account the additional costs associated with recruitment and training.

- **Future benefits from continuous delivery model.** The interviewed organizations had only recently adopted the continuous delivery model, but they reported their following benefits:
  - **Faster compute time**. Though still in the process, one interviewed organization hopes that with premium performance their compute time will be able to decrease by 50%.
  - **Further reduction of inquiries by leveraging AI capabilities**. Organizations could leverage AI capabilities to answer sales rep inquiries and further free up administrator time.
  - **Easier upgrade process**. Currently, several of the interviewed organizations rely on implementation partners to upgrade their SPM version. With the move toward continuous updates, the hope is that organizations will not be as dependent on implementation partners and that the update process will be easier and faster.

Average annual sales

x

Percentage increase in sales due to new sales plans

Increase in sales from quickly implementing targeted incentives

Total number of sales reps

x

Average annual turnover rate

x

Average number of weeks to replace and ramp a new sales rep

x

Average weekly decrease in sales due to unfilled sales role

Reduction in sales turnover reduces risk of unmet sales opportunities

Flexibility

The value of flexibility is clearly unique to each customer, and the measure of its value varies from organization to organization. There are multiple scenarios in which a customer might choose to implement Varicent SPM and later realize additional uses and business opportunities including:

- **Adding more payees or compensation models to SPM**. This will help the organization see additional benefits tied to cost savings and sales effectiveness.
- **Creating new reports, analyses, and leveraging insights in new ways**. The organization could use this new data to make new strategic decisions to gain additional benefits not yet realized.

Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in Appendix A).

Flexibility, as defined by TEI, represents an investment in additional capacity or capability that could be turned into business benefit for a future additional investment. This provides an organization with the "right" or the ability to engage in future initiatives but not the obligation to do so.

Analysis Of Costs

QUANTIFIED COST DATA AS APPLIED TO THE COMPOSITE

Total Costs

REF.	COST	INITIAL	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL	PRESENT VALUE
Gtr	Varicent SPM cloud licensing	$0	$404,976	$404,976	$404,976	$404,976	$404,976	$2,024,880	$1,535,178
Htr	Profession al services	$440,000	$220,000	$0	$0	$0	$0	$660,000	$640,000
Itr	Implement ation and planning costs	$412,500	$165,000	$0	$0	$0	$0	$577,500	$562,500
Jtr	Training	$66,700	$165,600	$0	$0	$0	$0	$232,300	$217,245
	Total costs (risk-adjusted)	$919,200	$955,576	$404,976	$404,976	$404,976	$404,976	$3,494,680	$2,954,923

Varicent SPM Cloud Licensing And Maintenance

The composite organization incurs a yearly fee for its 2,000 cloud licenses. In addition, the model accounts for additional internal IT support costs in maintaining the solution.

Cloud licensing costs will vary from organization to organization based on:

- The licensing agreement an organization chooses.
- Other products that may be licensed from the same vendor, and other discounts.
- The number of licenses purchased by an organization.

To account for these risks, Forrester adjusted this cost upward by 10%, yielding a five-year risk-adjusted total PV of $1,535,178.

The table above shows the total of all costs across the areas listed below, as well as present values (PVs) discounted at 10%. Over five years, the composite organization expects risk-adjusted total costs to be a PV of more than $3.0 million.

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Varicent SPM Cloud Licensing: Calculation Table								
REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
G1	Annual cost of cloud licensing each year			$312,000	$312,000	$312,000	$312,000	$312,000
G2	Annual administration and support costs of solution (IT support)	18%		$56,160	$56,160	$56,160	$56,160	$56,160
Gt	Varicent SPM cloud licensing	G1+G2	$0	$368,160	$368,160	$368,160	$368,160	$368,160
	Risk adjustment	↑10%						
Gtr	Varicent SPM cloud licensing (risk-adjusted)		$0	$404,976	$404,976	$404,976	$404,976	$404,976

Professional Services

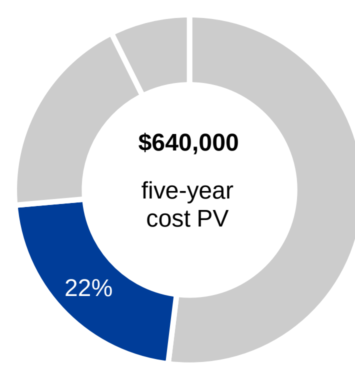
In addition to the internal support staff, the composite organization also worked with Varicent professional services to help with the planning, implementation, and development for the SPM investment. Based on our interviews, the support of the professional services team was seen as a key piece to mitigating the risk associated with moving to a new variable compensation solution and ensuring a smooth deployment. During the initial phase, the composite organization spent $400,000 on professional services to help guide planning and the development of the initial SPM rollout. In the following year, the composite organization spent $200,000 to help with the rollout for the remaining users. This also included the cost associated with training of administrators that manage the system and the compensation team. While many organizations become self-sufficient and manage their own model and SPM implementations without the need for ongoing professional services, Forrester included this cost for the readers consideration.

Professional service fees will differ based on:

- The size and scope of deployment.
- Prevailing labor markets.

To account for these risks, Forrester adjusted this cost upward by 10%, yielding a five-year risk-adjusted total PV of $640,000.

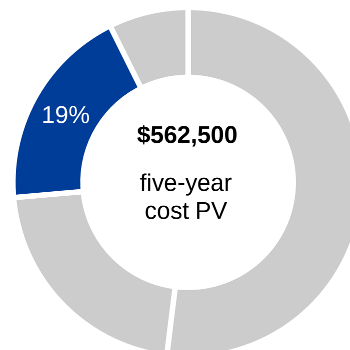
Implementation risk is the risk that a proposed investment may deviate from the original or expected requirements, resulting in higher costs than anticipated. The greater the uncertainty, the wider the potential range of outcomes for cost estimates.



Professional services: **22%** of total costs

Professional Services: Calculation Table				
REF.	METRIC	CALC.	INITIAL	YEAR 1
H1	Professional services fees		400,000	200,000
Ht	Professional services	H1	$400,000	$200,000
	Risk adjustment	↑10%		
Htr	Professional services (risk-adjusted)		$440,000	$220,000

Implementation And Planning Costs



Implementation and planning: **19%** of total costs

During customer interviews, Forrester uncovered the importance the interviewed organizations put on spending time upfront to fully plan out their implementation of Varicent's SPM solution to ensure a smooth transition. During the first phase of implementation, based on the learnings from these interviews, the composite organization spent time upfront with the FTE equivalent of five employees planning their implementation. This included understanding their existing data, planning out their business needs and requirements, and planning their business rules for their variable compensation plans to make the best use of their time once they began development. For their implementation, they initially rolled out to 500 users. And in the following year, they rolled the solution out to the following 1,500 users, with a staff of two FTEs.

Implementation costs will vary depending on:

- The number of FTEs dedicated to the planning and implementation of SPM.
- The average salary of the FTEs dedicated to the planning and implementation.

To account for these risks, Forrester adjusted this cost upward by 10%, yielding a five-year risk-adjusted total PV of $562,500.

Implementation And Planning Costs: Calculation Table				
REF.	METRIC	CALC.	INITIAL	YEAR 1
I1	FTEs for planning and implementation period		5	2
I2	Average salary		75,000	75,000
It	Implementation and planning costs	I1*I2	$375,000	$150,000
	Risk adjustment	↑10%		
Itr	Implementation and planning costs (risk-adjusted)		$412,500	$165,000

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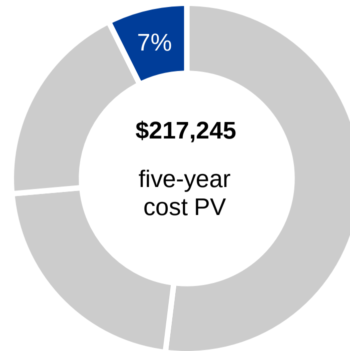
Training

The composite organization incurs costs associated with the development of training material, as well as the cost of training the sales team. The cost of developing the training, based on feedback from the interviewed organizations, was $10,000. The training itself was conducted as a half-day seminar. The initial rollout was for 25% of the sales staff, 500 individuals, and the remaining rollout was for 1,500, the following year.

Organizations will face varying training costs depending on:

- The number and duration of training sessions.
- The hourly salary of sales staff.
- The size of an organization's sales teams.

To account for these risks, Forrester adjusted this cost upward by 15%, yielding a five-year risk-adjusted total PV of $232,300.



Training:
7% of total costs

Training: Calculation Table

REF.	METRIC	CALC.	INITIAL	YEAR 1
J1	Training development		$10,000	$0
J2	Cost of training sales team	4 hour session * hourly salary	$48,000	$144,000
Jt	Training	J1+J2	$58,000	$144,000
	Risk adjustment	↑15%		
Jtr	Training (risk-adjusted)		$66,700	$165,600

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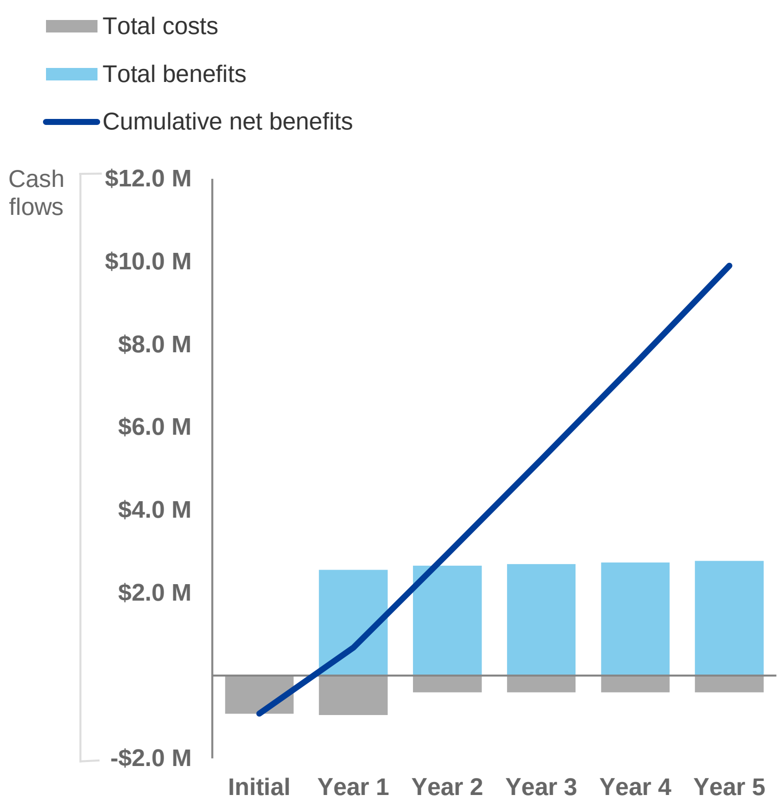
Financial Summary

CONSOLIDATED FIVE-YEAR RISK-ADJUSTED METRICS

Cash Flow Chart (Risk-Adjusted)



The financial results calculated in the Benefits and Costs sections can be used to determine the ROI, NPV, and payback period for the composite organization's investment. Forrester assumes a yearly discount rate of 10% for this analysis.

These risk-adjusted ROI, NPV, and payback period values are determined by applying risk-adjustment factors to the unadjusted results in each Benefit and Cost section.

Cash Flow Table (Risk-Adjusted)

	INITIAL	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL	PRESENT VALUE
Total costs	($919,200)	($955,576)	($404,976)	($404,976)	($404,976)	($404,976)	($3,494,680)	($2,954,923)
Total benefits	$0	$2,555,060	$2,654,420	$2,690,951	$2,728,395	$2,756,104	$13,384,930	$10,113,124
Net benefits	($919,200)	$1,599,484	$2,249,444	$2,285,975	$2,323,419	$2,351,128	$9,890,250	$7,158,201
ROI								242%
Payback period								7 months

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Varicent Sales Performance Management: Overview

The following information is provided by Varicent. Forrester has not validated any claims and does not endorse Varicent or its offerings.

Varicent Sales Performance Management is a robust sales performance management (SPM) solution that helps sales and executives efficiently manage their day-to-day operations and align sales strategies to long-term corporate growth. Designed specifically for business users, Varicent SPM enables organizations to manage the entire sales lifecycle including assigning territories and quotas to sales representatives, developing compensation plans, automating the calculation of incentives and commissions, and analyzing and communicating key performance metrics across the entire team. Unlike traditional manual or spreadsheet- based solutions, Varicent SPM offers the speed, flexibility, and visibility needed to increase the efficiency and ease of administering variable compensation programs while providing in-depth insight into identifying and capturing revenue opportunities.

Assigning and managing the sales territory coverage model. Varicent SPM enables organizations to set up and process territory assignments and sales crediting helping to ensure that an organization's sales coverage and deployment model is aligned with corporate objectives and incentive compensation plans. Sales staff and managers can create multiple territory assignment, 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 are all easily managed within the solution. Managers can apply overrides, splits or adjustments when necessary. Compensation admins and sales reps quickly adopt confidence and trust in territory assignments, plan eligibility and crediting assignments with Varicent SPM.

Setting and managing sales quotas and attainment. Varicent SPM enables organization to better plan and manage sales quotas. Sales executives, managers and professionals at all levels can efficiently plan, manage and distribute quota assignments that meet revenue expectations and increase sales performance. With Varicent SPM, organizations can model the financial impact of proposed quotas prior to rollout for cost management and budgeting, report on quota attainment and pay distribution to improve incentive plan effectiveness and ensure alignment between sales and corporate objectives. Compensation admins can build plan logic to include quota attainment levels that are used in the calculation of commissions and bonuses for sales. Sales staff are able to view dashboards and reports that display quota targets, quota attainment and compare these values against actual sales revenue. Sales operation staff and managers can access reports that allow them to assess which sales reps, sales team or territory is in jeopardy of achieving quota targets and proactively launch selling activities to boost sales revenue in advance of the period close date**.**

Designing and managing the sales incentive compensation programs. Varicent is a high performing and scalable solution that enables companies to automate the process of calculating, reporting & analyzing variable-based pay. Varicent SPM provides tools and information for sales reps—ensuring accuracy and efficiency. Managers and admins can take control of their operations, eliminate surprises and make better strategic choices for their variable incentive programs. Tangible benefits are achieved by automating incentive compensation calculations, improving governance and reporting and analyzing sales performance. Varicent SPM provides graphical compensation plan design, workflow management and audit tracking, reports, dashboards, analytics and modeling, automated processes, scheduling and task management and high performance and scalability.

Improved data-drive decisions with data discovery, insights and analytics. With a graphical reporting tool in Varicent SPM, business users are enabled to quickly generate formatted and customized reports. Sales managers and executives can gain deep, detailed insights into sales performance and effectiveness such as profit margins, cost of sales and account penetration to drive effective selling strategies and enhance upsell and cross-sell opportunities. Admins can also deploy mobile-ready reports to drive key motivators, react to market changes and identify performance outliers. Leverage data discovery and advanced analytics to improve decisions that are data-driven. Unlock actionable sales insights and opportunities faster with advanced analytics.

To learn more about Varicent® Sales Performance Management, visit us at [www.varicent.com.](http://www.varicent.com)

Appendix A: Total Economic Impact

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

Total Economic Impact Approach

Benefits represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

Costs consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

Flexibility represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.

Risks measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.

Present value (PV)

The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.

Net present value (NPV)

The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.

Return on investment (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.

Discount rate

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.

Payback period

The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

Appendix B: Endnotes

[1] Spiff is a slang term used to define the immediate bonus of a sale that's been made.