

Varicent™

**The seven deadly sins of
sales performance management**

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Sales compensation is the fuel that drives revenue generation. Each year over \$1 trillion is spent on sales forces yet many organizations still struggle with incentive administration and reporting — especially those with large sales forces, complex incentives or high sales transaction volumes. The result is diluted sales performance, as carefully designed incentives lose their impact through confusion, errors or spotty feedback.

We view sales compensation as an ecosystem that is comprised of a number of independent systems that all interact with each other. With this view, tightly integrated solutions can be designed, aligning compensation plans, communication, administration, reporting, service and analytics to deliver results.

When this ecosystem is out of balance, incentive administration and reporting require excessive manual effort, high error rates occur and the sales back office is viewed as an inflexible roadblock.

Furthermore, the sales force may feel distracted, frustrated or even worse — apathetic. We help companies quickly diagnose and remediate underperforming sales performance management (SPM) ecosystems and after numerous projects, we recognized similar root causes coming up repeatedly, and thus was born — *The seven deadly sins of SPM*.

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1. Ineffective compensation plan designs

The incentive designs themselves are the most important part of the SPM ecosystem. After all, if the incentives are not capable of producing the desired results, then tweaking the other components of the ecosystem will not make a meaningful difference.

The most common root causes behind ineffective compensation plans are misalignment, overcomplexity and poor communication.

Misalignment occurs when the job responsibilities and plan objectives are not aligned with the goals of the organization. This can be a result of poorly defined jobs, or by not taking a holistic view of compensation when there are changes to corporate strategy. If your strategy has changed drastically or even evolved a little bit each year, while the structure of your sales compensation plans have not changed, then you likely have some misalignment in your plans.

Complexity can appear in many ways. It could be a large number of plans or convoluted eligibility, crediting or incentive calculation rules. When we see a salesforce of 1,000 reps and 500 different sales compensation plans, this usually means that sales leaders are designing plans for specific individuals, versus the job. All of these special compensation arrangements introduce complexity and lead to significant manual administration. Complexity can also occur during quota setting as elaborate allocation factors result in quotas that are neither equitable, achievable or understandable.

Communication can be a very powerful motivator when done well. Good communication of sales incentives includes the initial executive announcement, reinforcement by local management and clear and accessible documentation. Incomplete and ambiguous communication is guaranteed to produce some spirited disputes later in the year, when reps believe they have met eligibility criteria and then discover the fine print.

Sales forces are motivated by simple plans that have clear alignment to corporate goals, are communicated concisely and then reinforced regularly.





2. Dirty data

Administering sales compensation requires the upkeep of many important pieces of information, such as:

- Who is in what role and how should they be paid?
- Who reports to whom?
- Which clients or accounts, territories or regions?
- Which products are bundled into which product categories?
- What are the rules and rates for incentive calculations?

Additionally, the effective dates for each of the above must be maintained so that historical states can be reconstructed when backdated recalculations are processed. When we work with clients that are complaining about high error rates, we usually find challenges with reference data, and often a lack of data hygiene is a root cause.

Your business model can also have a dramatic impact on your sales compensation data quality. The best-case scenario for data quality exists when your sales force sells your products to your customers, since your IT department will have control over the systems of record for each of these areas. Career insurance agents who sell their companies' policies directly to their prospects and customers are a good example of this scenario.

But when you are selling your product through an outside distributor to someone else's customer, the control over data quality falls off quickly. High tech companies who sell their products via distributors or OEMs often struggle with the quality and availability of sales transaction data. In recognition of these realities, compensation plan designers need to adjust incentive plans to focus on data that is available and trustworthy to avoid administrative nightmares. Failure to do so can result in a salesforce that mistrusts their commission results.

3. Convoluted processes

Changing outdated business policies can be one of the most difficult changes to make. In fact, it is not uncommon for old business policies to remain in place even when a large system initiative is underway to transform incentive processing (i.e., paving the cow path). The first step in simplification is to fully understand the existing processes and policies from end to end, and then identifying the bottlenecks and redundant or unnecessary processing branches. The next step is having the courageous discussions to change the old way of doing things in exchange for a more streamlined business process.

Systems with lightweight functionality or older systems that have been modified so much that people are afraid to touch them, can have a significant impact on time to market with new incentives. There are three possible outcomes in this situation:

- The business yields to the system and designs simple-to-administer plans.
- The operations team fills the gap with manual processes.
- You can enhance or replace the system.

Eventually these systems will have to be replaced as the business cannot continue to absorb manual workarounds and at some point, the business is going to have to implement a more complex plan that cannot be supported manually. For some organizations, the last minute, high priority request occurs infrequently and is manageable, while at others it is standard operating procedure. Having a clearly understood (and utilized) change process that includes active management and target dates is a first step in getting last minute requests under control. Best practices include having a formal multi-disciplinary team (e.g., sale ops, finance, legal, HR, IT, etc.) where all participants are knowledgeable, accountable and articulate. Also, having clear decision-making processes and clear roles helps ensure that the team is decisive and that open issues can be resolved quickly without putting the schedule at risk.





4. Lackluster reporting

Incentive Compensation Management and Sales Performance Management systems only have two real outputs — payment amounts and information. Our research shows that less than one third of companies are satisfied with their ability to leverage the information inside their compensation systems. Lack of specialized skillsets and the effort required to get data out were cited as top obstacles. Three primary audiences require sales compensation information to do their jobs well — compensation operations, sales and finance.

The operations team requires a viewing window into how performance is translated into credits and incentives in order to validate results and resolve inquiries and disputes. With old legacy solutions or spreadsheets and home grown databases, this is not usually a problem as there are little controls on the data. However, many of the new packages are less transparent and require forethought to ensure that information needs are met.

Sales performance reporting helps maximize sales performance through the timely reinforcement of incentives and by providing sales management with the drill down capabilities to gather insights on team performance. Sales leaders and reps need the ability to interact with results from multiple perspectives (e.g., summary, detail, by product, by region, etc.). Solid sales reporting platforms balance frequency of information updates, completeness of information, accessibility and also deliver a solid user experience that keep everyone's eyes on the goal line.

Regular financial reporting helps minimize variances between accruals and actuals. When sales compensation is processed across multiple systems or has some manual components, it can be difficult to accrue for future payouts, since the system is not aware of accumulated performance until it is time to pay out bonuses. Consolidation of incentive administration on to a single platform accompanied with trending reports can significantly improve the quality of financial forecasts.

Reporting projects are successful when the scope is achievable and valuable. We recommend beginning with a KPI where a consensus definition can be reached fairly easily (e.g., revenue) and then exploring requirements by adding dimensions to the KPI such as territory, team, product category, revenue versus forecast/quota and trending information. We also recommend delivering reports to the field incrementally rather than in bulk, as large reporting projects can suffocate under their own weight. Also, by releasing relatively simple initial versions of reports and then adding complexity over time, you can incorporate real world feedback, resulting in much better reports.

5. Service without a smile

If any of the deadly sins that we have discussed have already been breached, then we may have a situation where a rep who is not very clear on their compensation plan receives a confusing statement or report. Not surprisingly, this rep may reach the conclusion that they were paid incorrectly and will wish to dispute the result.

Resolving disputes in a quick, friendly and fair fashion is the key to keeping reps focused in the marketplace and nipping anger and frustration in the bud. Short dispute windows, assuming reps are guilty until proven innocent or making the service team generally difficult to reach, are all tactics that can fuel versus dampen negative emotions.

Make sure that there are enough analysts to handle the demand from sales reps and that your team is available to interact with the reps during their working hours. It is also important to document and classify all service requests — from both the field and home office requestors. By doing so, you can quickly spot areas that need improvement to take action.

Finally, monitor progress with your team regularly. You can inspect service logs, call volumes by type, number of calls requiring escalation, etc. By doing so you are letting your team know that good service is important, and it also helps you keep your finger on the pulse of issues before you get a surprise call on a hot issue from the Senior Vice President of Sales. Given that 100 percent of your revenue flows through your sales reps, it is important to provide a great service experience to the people who manage your organization's client relationships.





6. Ignoring incentive ROI

The amount of money spent on sales salaries and incentives is staggering and with such large sums at stake, it is critical to use good stewardship on how this money is spent. Without a thorough analysis of where all of the incentive dollars are going and what the company is getting back in return, it is difficult to learn and improve upon the effectiveness of incentives. According to our research, only about 12 percent of companies actively track their return on investments in incentives. Analytics can help answer important questions such as:

- Which incentives work the best for different segments of our salesforce (e.g., new hires, veteran producers, top performers)?
- Which managers consistently hire and develop future sales stars?
- How much additional revenue lift was received from the Q4 SPIFF? Which products?

Culture and personalities can have a big impact on how decisions are made within the sales division. However, finance executives need accurate cost and revenue information in order to correctly allocate budget dollars for selling expenses.

Modeling tools can help build forecasts of revenue performance for each incentive component and reporting can then compare forecasts to actual. Multivariant analysis can look at incentives over time and help identify the audiences who respond best and which incentives are truly causal when it comes to increased revenue performance.

Increasing awareness of the total spend with a focus on how to get more from your incentive budget is a good way to get these discussions underway. Like anything new, you have to start doing it regularly before it becomes a habit and part of standard operating procedures.

7. Inflexibility

One of the most deadly of sin's, organizations that are rigid and inflexible, are members of the half, which makes the top half possible. These are organizations that say, "Well, that's the way we've always done it." These teams lock onto old processes and are relenting to hold on.

This level of short-sightedness fails to consider that markets change, people change, motivators change. Failure to consider those changes fail to attract and retain top talent. They often wonder why the seller churn is so high after on-boarding. Change is inherent in "variable compensation." It's at the heart of incentive compensation to drive sales organizations striving to stay at the top of the market. Consider these questions in reflection:

- Which incentives work the best for different segments of the salesforce? Is it a new hire, veteran producer, top performer? It will be different for each.
- Which managers consistently hire and develop future sales stars? How can those efforts be successfully replicated in other teams?
- How much lift did the recent SPIFF or short term reward program gain? Would it work again, or was it unique?
- What drives more profitable lines of business?

Understanding the answers to these questions, and having a regular review, aligns the team to successful attributes. When the plan is not aligned, these metrics stand out, and it's time to ask these questions again for better results.



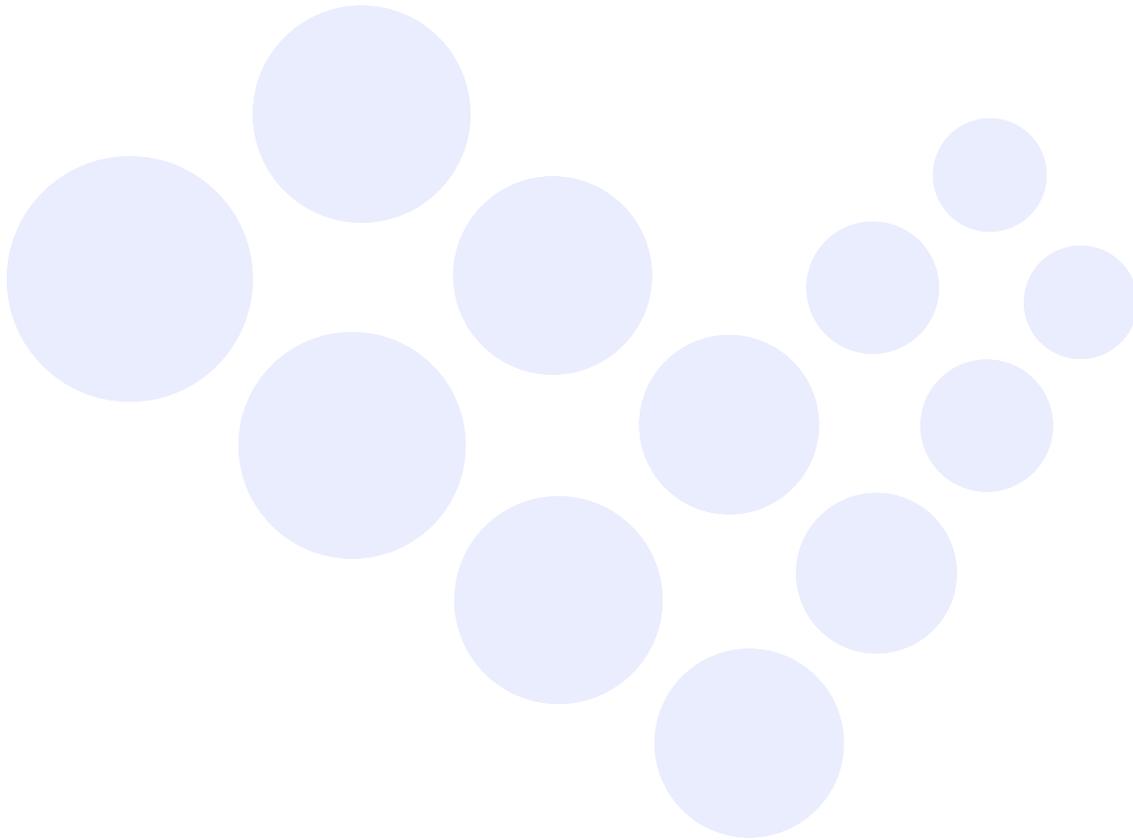
Conclusion

None of us are saints - but we can certainly avoid these seven sins. When we enter into an agreement with top performers in the sales team, we must be transparent in setting the right goals, allowing management to help guide them to success, and deliver on the promise of the compensation plan.

Some of these sins are out of pressure and desperation. Like so many of your peers, you likely lack time, have limited access to proper tools, and trying to manage the expectations of everyone on your team.

There is a better way.

Varicent is the sales performance management solution that will support your organization and help your sales force drive growth.



About Varicent™

Varicent helps clients accurately track, manage, and report on sales processes through the industry-leading Sales Performance Management (SPM) solution. Established in 2005, Varicent innovated the SPM software industry by developing business tools for Incentive Compensation, Territory, Quota, and Channel Management. With Varicent's augmented intelligence-powered platform, customers realize bottom-line efficiencies and top-line results through sales dashboards and models for better decision making at all levels of the business.

For more information

To learn more about Varicent Industry Solutions, contact your Varicent sales representative or visit: www.varicent.com

