

7 SIGNS

**IT'S TIME TO REPLACE
YOUR HOMETGROWN
SALES COMPENSATION
MANAGEMENT
SYSTEM**

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INTRODUCTION

Like leading decision-makers at all successful companies, you recognize the importance of measuring and managing sales performance. This means implementing an incentive compensation management (ICM) system that organizes and evaluates compensation plans, territories, quotas, and processing operations. To this end, you may have developed your own ICM application, perhaps even using or incorporating Excel.

Initially, your homegrown solution may meet your needs. However, every successful company eventually runs into some growing pains, unexpected market developments, and demanding compliance requirements. When that happens, you may begin to take a second look at your ICM system, asking:

- Are payments to sales agents being issued on time and correctly?
- Is managing the incentive process taking more and more resources each pay cycle?
- Can you measure the effectiveness of your incentive compensation plans?

These are all very good questions, which every company should periodically ask. But an ounce of prevention, as the expression goes, is worth a pound of cure. So let's examine seven specific signs that it is time to reevaluate your ICM solution.

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#1 GROWING COMPLEXITY: COMPENSATION, QUOTAS AND TERRITORIES

As your business grows, and transaction volumes increase, incentive plans and sales crediting can get quite complex. An endless flow of inputs and parameters need to be collated, taking into account such elements as intricate crediting chains, returns, callbacks, quotas, and territories. Many times, this also means correlating data from multiple business units with very different systems and procedures (e.g., territory assignments and compensation credits), posing a serious challenge for automating data entry.

Speed, performance and precision - critical elements for effective ICM – begin to suffer as data collection, analysis and process complexity proliferate. It becomes more difficult and tedious to write and update formulas, and to define new macros and pivot tables for a digital spreadsheet (such as in Excel). And even the smallest changes to compensation plans and business rules require support from your IT team, and take a great deal of time to implement.

Naturally, the more intricate and manual your compensation management processes are, the more unavoidable late payments and human errors become. Unfortunately, they will also be more costly and time-consuming to fix.

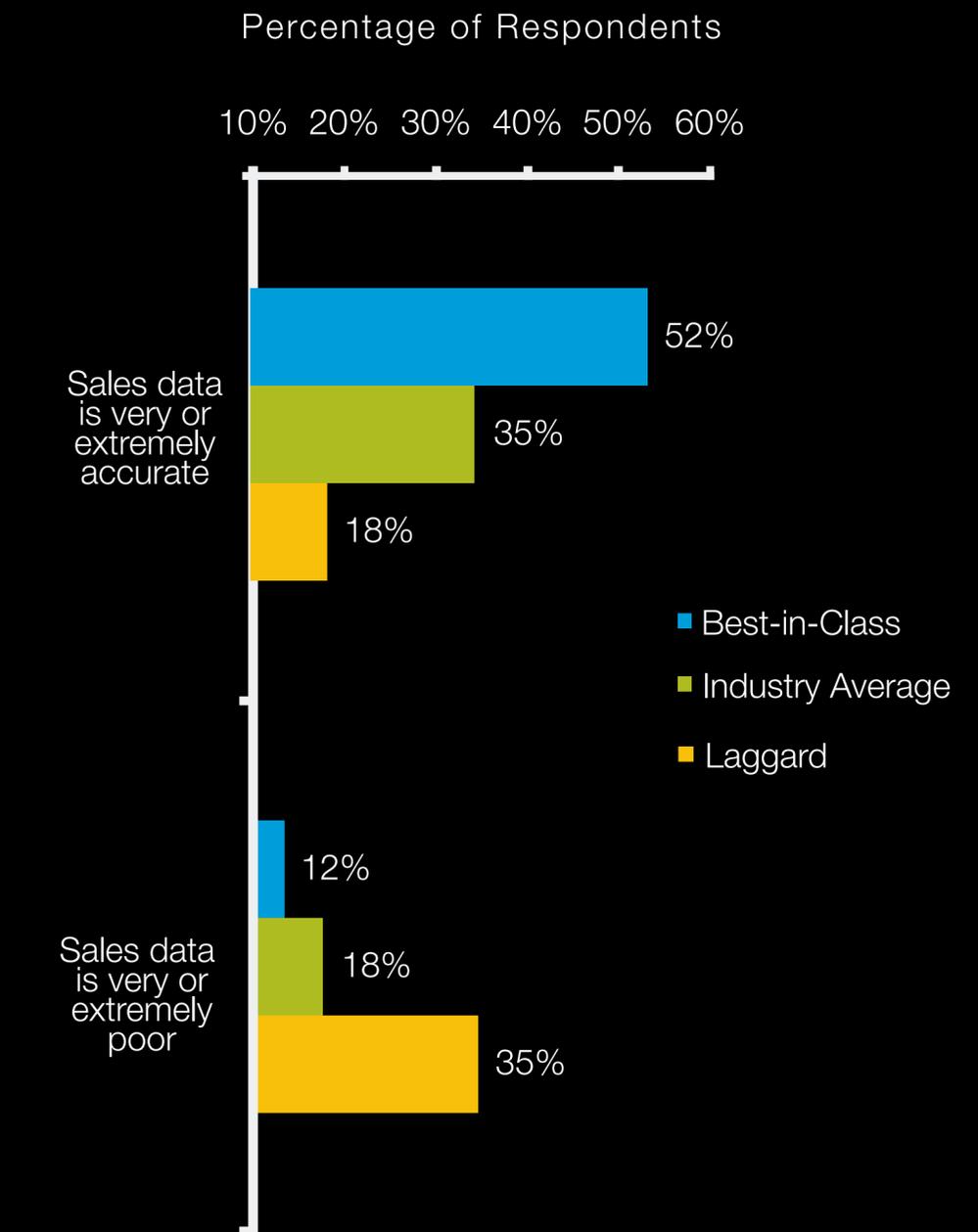


#2 A PATCHWORK OF MULTIPLE SYSTEMS

ICM processes grow and evolve over time, much as the company does. In order to meet changing needs, you may have added manual operations piece by piece, developed new systems specifically for certain data processing or operations, and put a few workarounds in place “temporarily” to patch up some process. You end up with an ill understood, tangled patchwork of in-house ICM solutions. The results are all too evident:

- A very high-maintenance ICM.
- Slow response times and low operational efficiency.
- A lack of visibility into detailed sales metrics.
- Difficulty revising, revamping or replacing the ICM system code.

Clearly, when sales compensation data and processes are spread across multiple systems, there’s simply no way your data can be of high quality. This is especially worrisome, because Aberdeen research suggests very clearly that the **best-in-class sales organizations depend on extremely accurate sales data**, while low-performing companies generally make do with very poor data.



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Source: Aberdeen Group, February 2016

#3 SALES REPS DON'T TRUST IT

Repeat disputes regarding compensation during each pay cycle are a good sign that there is an operational problem in your ICM solution.

Even relatively well designed ICM systems can be undermined if sales representatives are denied visibility into their performance and related compensation. As Aberdeen research shows, the leading sales organizations regularly provide their employees with quality data regarding their current, projected and relative performances. This is because, without up-to-date, detailed compensation statements, team or individual performance rankings, and a way to track compensation disputes, most employees will be unable to maintain motivation and engagement over time.

All these failings manifest themselves in high employee attrition rates and in frustration among even the most loyal sales reps. You will see sales personnel spending more and more time on shadow accounting and less and less time on what they are paid to do, and do best – sell.



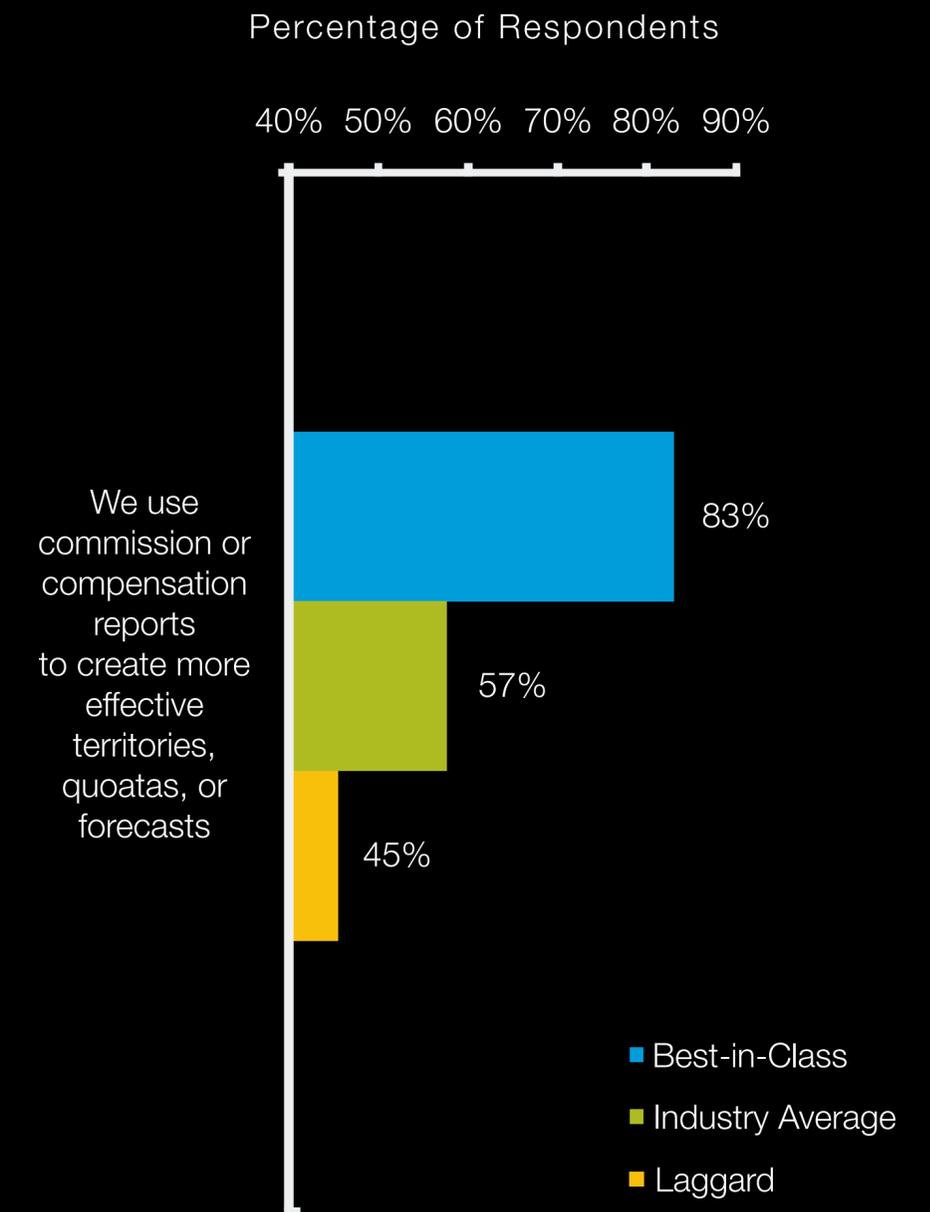
#4 MANAGEMENT CAN'T USE IT

Without fine-grain analytical capabilities, decisions are often made in the dark.

Ask yourself: Can your existing system provide -

- Performance reporting on revenue, incentive spend, and forecasted spend?
- Access to financial reports, such as accruals?
- Analytics identifying top performers, bottom performers, and trends?
- Regional or product-based sales analysis?
- Operations analytics, such as identifying repeat disputes or common scenarios that impact the sales force?
- The ability to measure the effectiveness of compensation plans?

Notice in the Aberdeen findings in the sidebar that **best-in-class companies are using compensation reports to significantly improve territory and quota management, as well as forecasting.**



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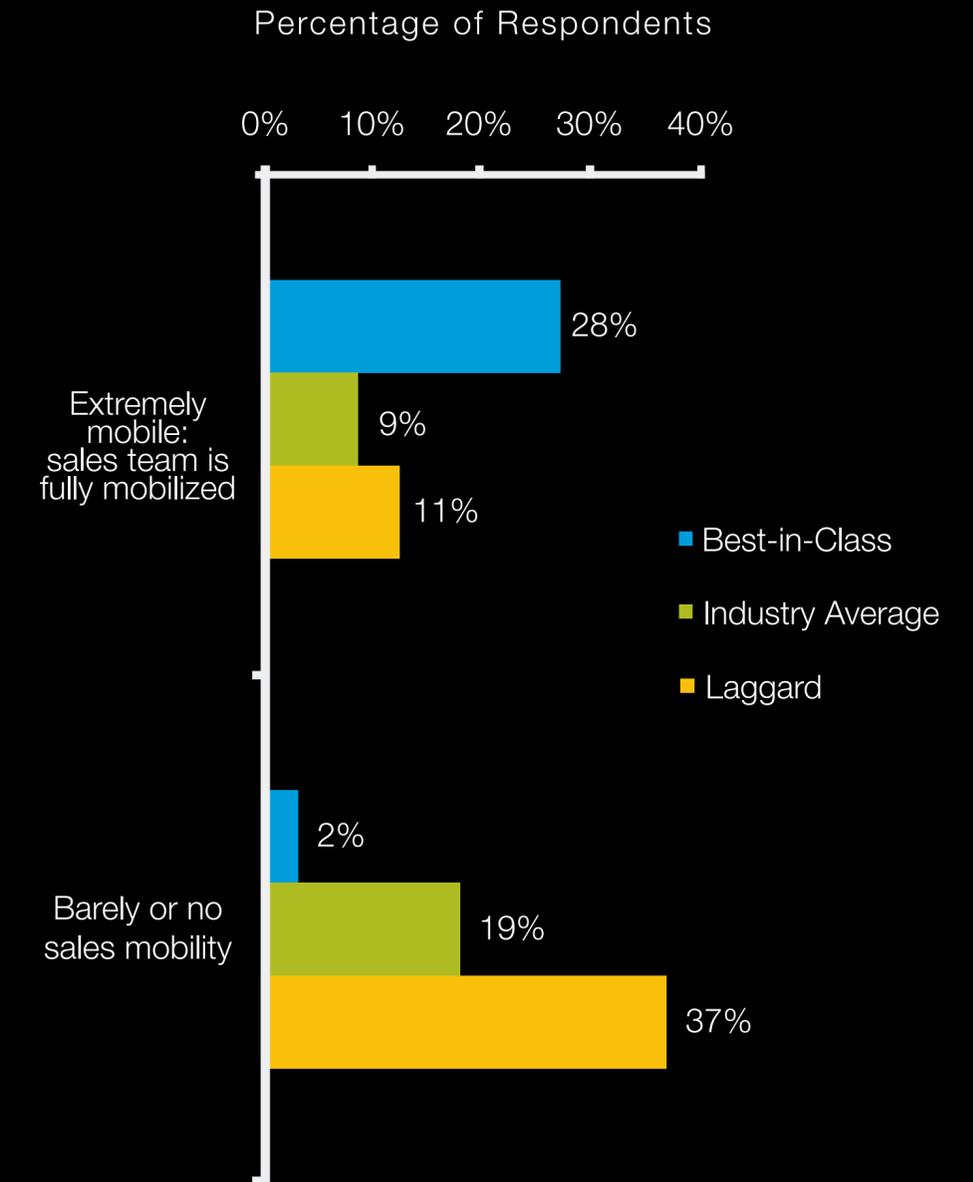
Source: Aberdeen Group, February 2016

#5 IMPLEMENTING CHANGES TAKES TOO LONG

Home-grown systems that are built to manage sales performance work well at launch. However, as time passes, your operations, data usage, and processes change and require adjustments in your sales compensation system.

Spreadsheets and homegrown systems are generally extremely tailored to your needs. Typically, they are not very flexible and adapting them to new needs is extremely time- and resource-consuming. Such upgrades end either in inefficient patches or in a completely rewritten system that would again be of temporary utility.

Take sales mobility. **One of the traits of best-in-class firms is the mobility of the sales team.** Ask yourself: Can your home-grown system provide sales reps with immediate access to data? Can sales people immediately view the financial impact of their transactions on their mobile devices? If not, how long would it take to implement such functionality?



n=332
Source: Aberdeen Group, December 2015

#6 PERFORMANCE IS NOT WHAT IT USED TO BE

Given the complexity of sales crediting, quota assignments and incentive plans, as well as the pace of technological change, it is to be expected that legacy compensation solutions have scalability problems as sales volumes increase. For example, they are not likely to support the latest mobile options and analytics functions, making in-day calculations and same-day reporting to global payee communities less convenient and more inconsistent.

Deteriorating performance will ultimately limit your ability to react and drive sales revenue through responsive sales and compensation management.

If you try to overcome performance issues by reworking your legacy in-house or vendor-based system, then beware of intricacies that can lead to unintended consequences. In the case of one global company, an aggregation workaround implemented to improve data handling times was successful – but at the cost of insufficient detail for effective analytics.

Deploying a modern, flexible ICM solution can resolve the accrued performance problems, while also providing the scalability necessary to overcome future challenges. Moreover, a new implementation will benefit from the lessons learned during the lifecycle of the replaced legacy solution.



#7 FORECASTING IS PRACTICALLY IMPOSSIBLE

For large-scale companies, sales forecasts and modelling are a business imperative. The impact of changes, such as in quotas and territories, can be evaluated and planned for by compensation analysts, managers and sales reps using such virtual simulations. The results are fewer payment errors, saved time and optimized sales performance, which, in turn, motivates your sales staff to greater achievement.

But effective sales forecasting and modelling becomes practically impossible when:

- Reference data is incomplete, in an unusable format, or incoherent due to the use of unrelated systems for different processes.
- Data is provided inconsistently or infrequently.
- Transactional data attributes do not map to your compensation plans.
- Internal data hierarchies are not accurately reflected.
- The system is unable to scale to accommodate processing large volumes of data.

Once the data integrity and coherence is restored, the forecasting challenge can be met with a high-performance ICM system that uses advanced automation and intuitive modeling for maximum accuracy.



BEST-IN-CLASS SALES COMPENSATION: WHERE DO YOU FIT IN?

Your compensation management solution should work for you and your sales teams, rather than you having to work to compensate for a more and more high-maintenance, inefficient system. Aberdeen Research data indicates that best-in-class companies are 105% more likely to deploy a commercial ICM system, which provides the flexibility required to accommodate changes, mobility, and sales process automation.

Where do you fit in?

Maturity Class	Performance (Mean Class)
Best-in-Class Top 20%	<ul style="list-style-type: none"> 72% of sales reps achieving quota 7.4% YOY growth in average deal size; 63% showed improvement 6.7% YOY improvement in (reduction of) average sales cycle; 52% showed improvement
Industry Average Middle 50%	<ul style="list-style-type: none"> 48% of sales reps achieving quota 2.8% YOY growth in average deal size; 41% showed improvement 0.4% YOY worsening of (increase in) average sales cycle; 22% showed improvement
Laggard Bottom 30%	<ul style="list-style-type: none"> 37% of sales reps achieving quota 5.7% YOY decline in average deal size; 8% showed improvement 15.8% YOY worsening of (increase in) average sales cycle; 14% showed improvement

Source: Aberdeen Group, December 2015



**LEARN HOW NICE SALES PERFORMANCE
MANAGEMENT CAN HELP YOU BECOME BEST-IN-
CLASS.**

Take Sales Compensation to the Next Level

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