

Steve Darcy, Incentive Compensation Management

6 June 2013

# Incentive compensation management

Automate incentive processes to align strategy, reduce errors and improve compliance



## Four key questions answered today

i

What is incentive compensation management (ICM)?

ii

What impact does it have on the organization?

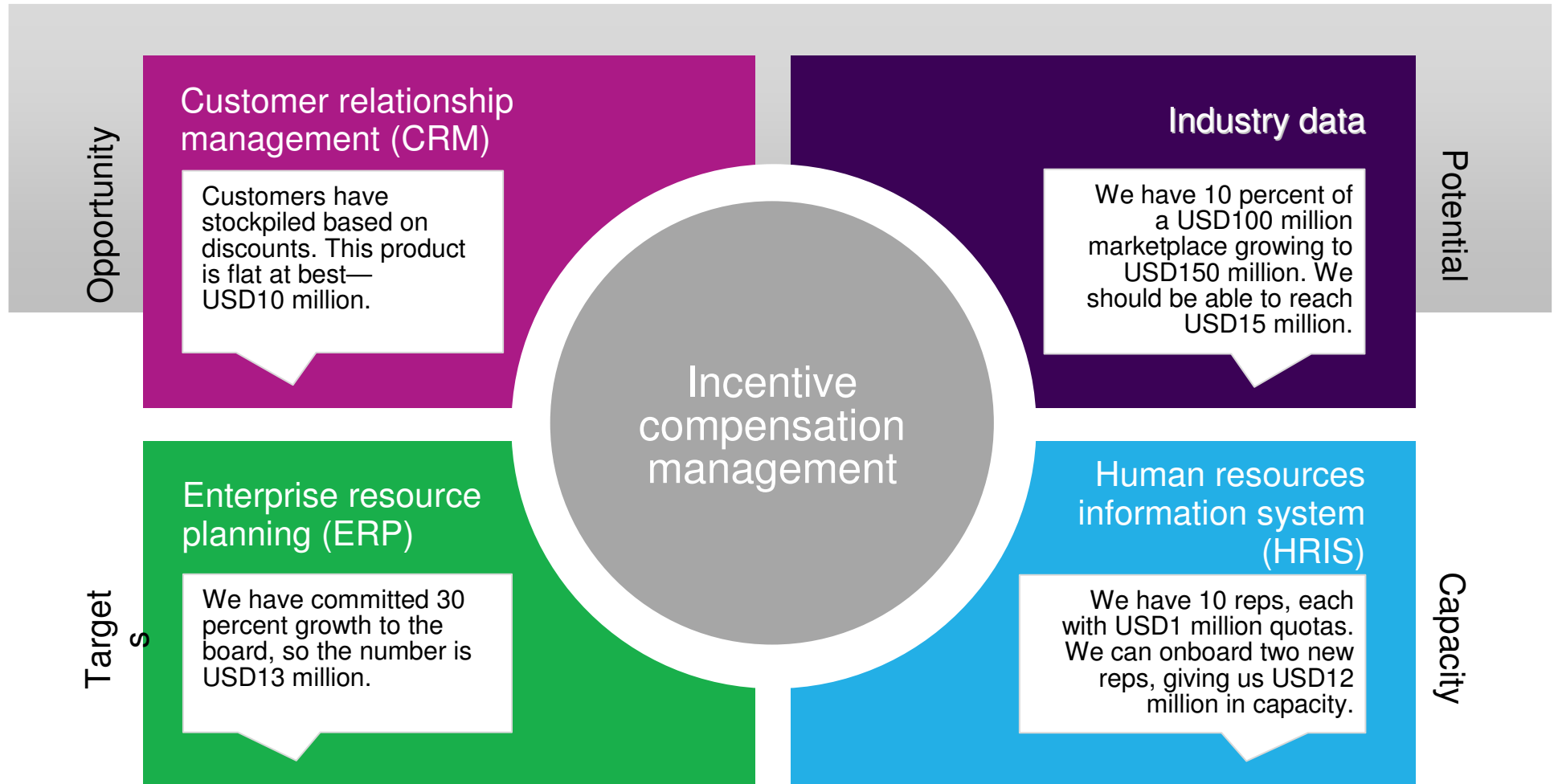
iii

What have other companies done to be successful?

iv

Why should the office of finance care?

## Organizational alignment?



## Incentive compensation management is hard

- Get the checks out on time
- Make sure they're accurate
- But also:
  - Be flexible and nimble for changing priorities
  - Manage complex assignments
  - Set accurate goals and targets
  - Generate enthusiasm
  - Deliver timely and insightful reports
  - Resolve questions and disputes
  - Do it with less headcount



## Common challenges

Inflexible

Labor intensive

Installed systems

Shadow accounting

Long cycle times

Errors

Transparency

Audit and compliance



## Agenda

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## Why companies adopt ICM technology



Efficiency and accuracy

Reduce errors

Shorten cycle times

Replace technology



Business enablement

Enhance decisions

Increase flexibility

Improve modeling and costing



Risk reduction

Internal audit

Legislation

Too reliant on a couple of people

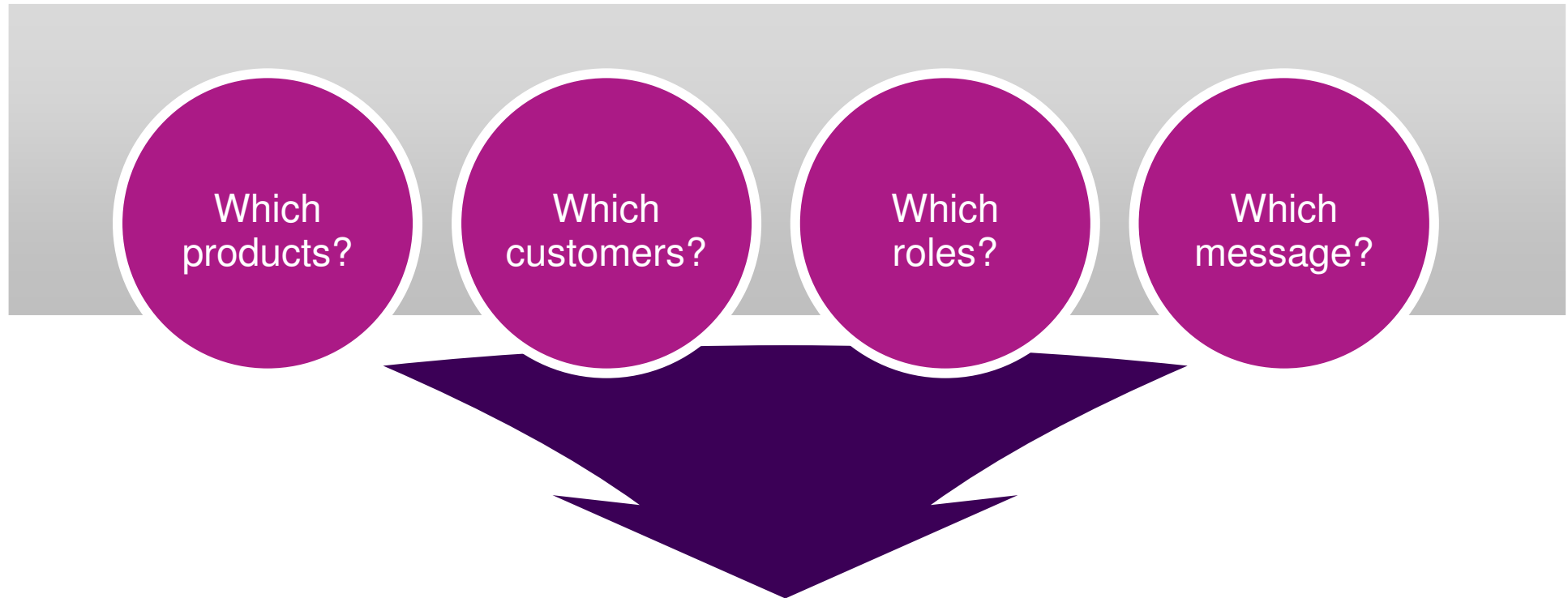
## Two axioms



Sales incentive compensation is the link between corporate strategy and customer-facing activity  
This business process is one of the lowest-hanging fruits for savings and efficiencies



## Good incentive design reflects business and sales priorities



Territory definitions, account assignments,  
plan measures, rates, crediting rules and more

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## Incenting based on controllable profits

### U.S.-based manufacturer of flooring products

“A lot of things that go into that profit margin are outside of the territory manager’s control ... such as the cost of raw materials.”

“But they can have an immediate impact on profitability by focusing on pricing.”

“Now that we have moved to a net-based sales plan, a territory manager can see a direct relationship between his behavior and the amount of his check.”

—*Project manager for commissions*



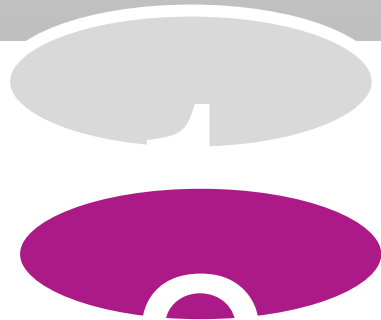
## Align incentives with corporate goals

### Retail division of a Canadian bank

- Offering a bonus for bundling multiple key products together (for example, mortgage along with insurance)
- Recognizing cross-selling new product families to their customers (such as a first long-term debt product for that customer or household)
- Rewarding employees for referring customers to another employee or business unit



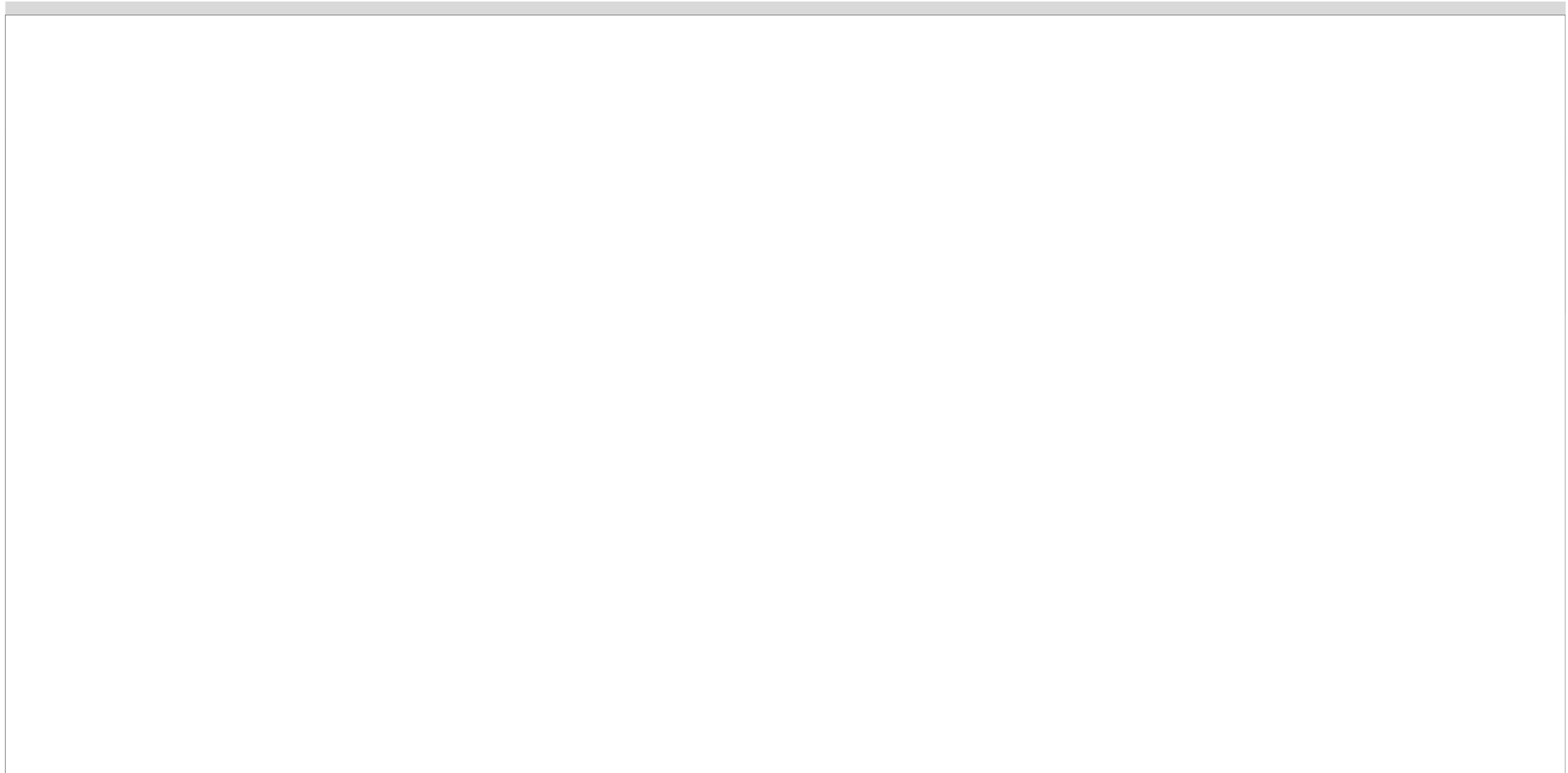
## Two axioms



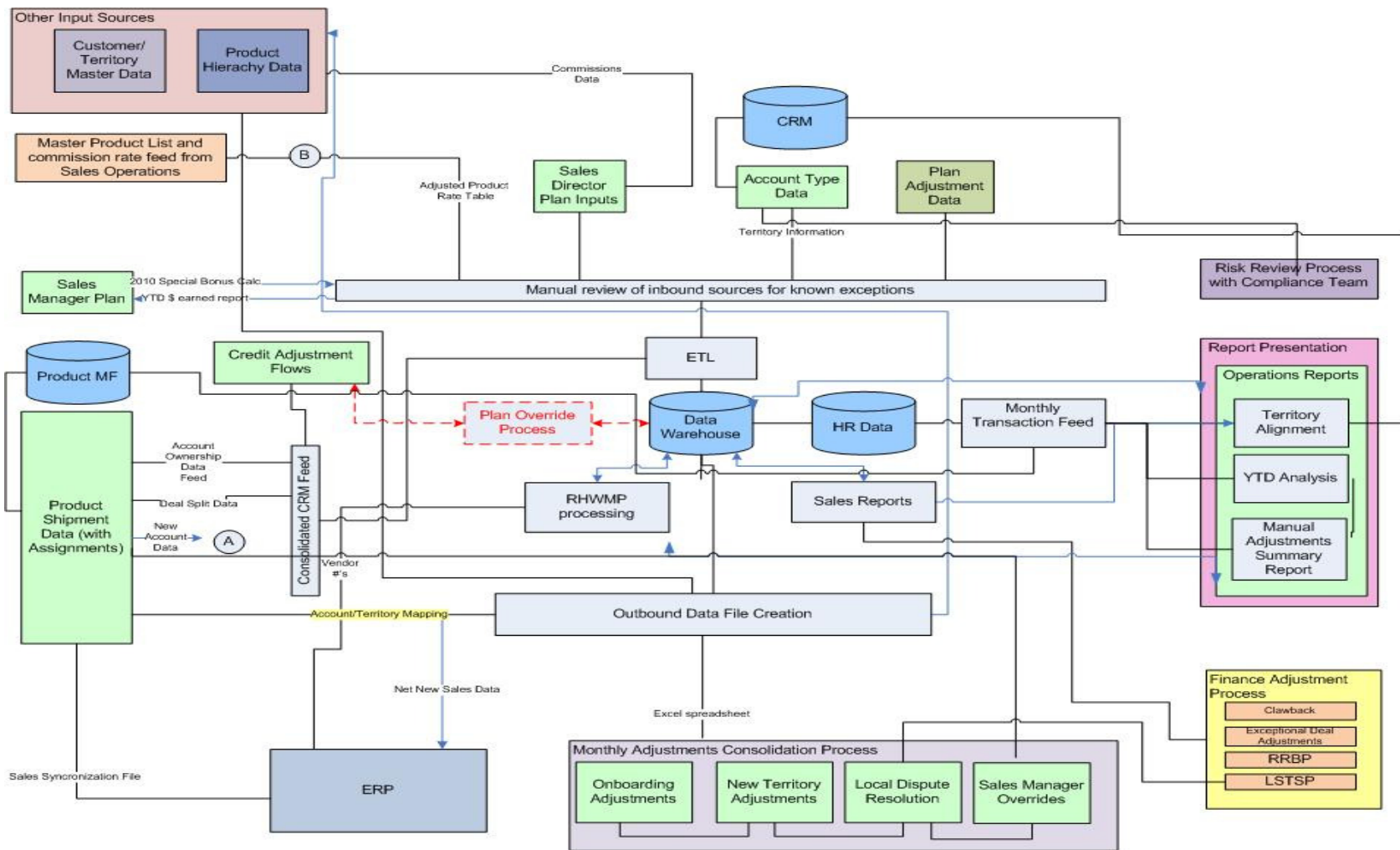
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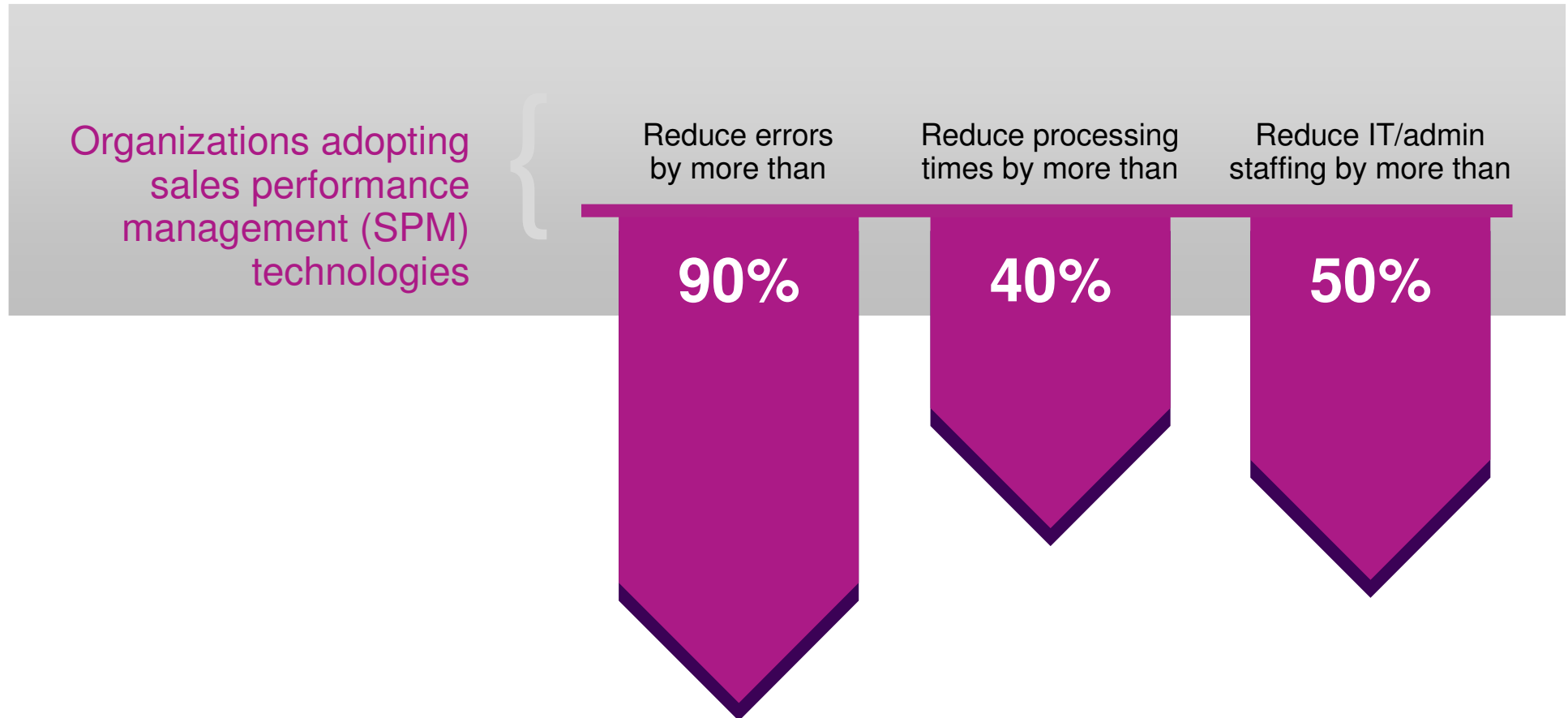
## How do companies manage today?



## An all-too-common scenario



## Getting results



Source: Gartner, *MarketScope for Sales Incentive Compensation Management Software*, Michael Dunne, March 5, 2010.

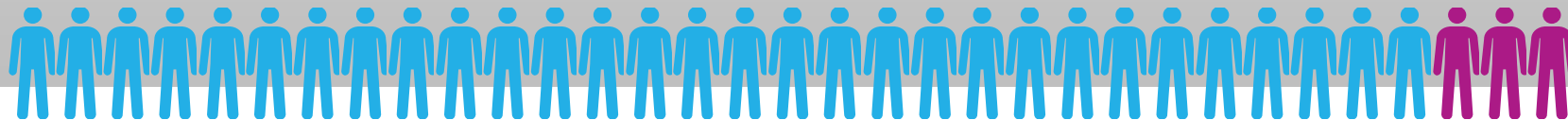


## Getting results



## Getting results

Centralized payout administration from **30** to **3** employees for North and South America



## Focus sellers on selling

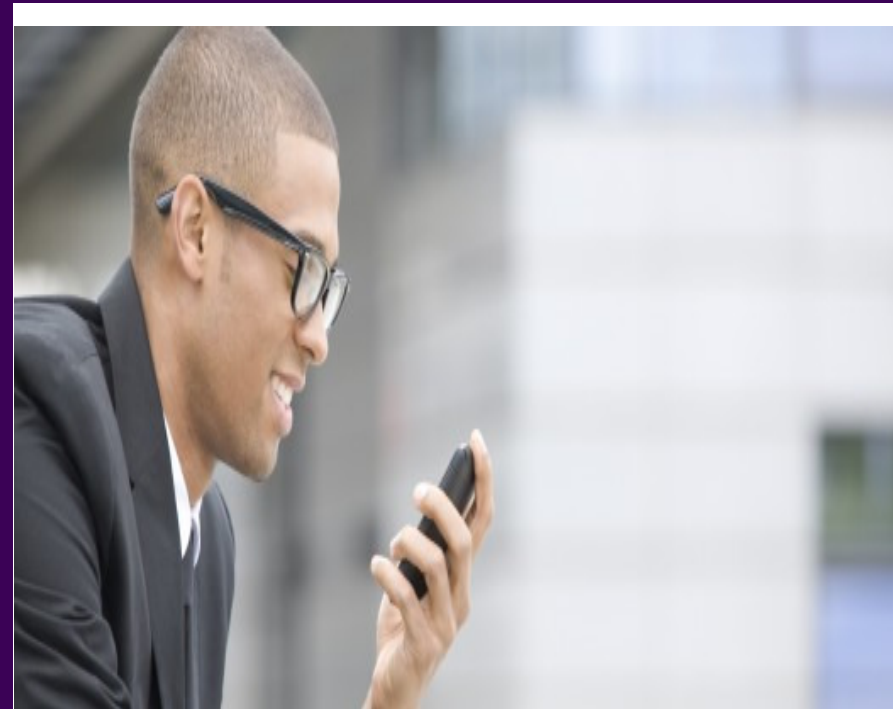


“When people didn’t understand what their achievement was, we got pushback on everything about our plan.

“By having transparency into the system we don’t have to worry about them saying, ‘Wait—I don’t get this.’”

“... spend more time selling”

—Steve Love, CFO



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Show me the  
**sales incentive plan ...**

and I'll show you the company's  
**business priorities.**

## Sales compensation spend today



## What is important to sales?

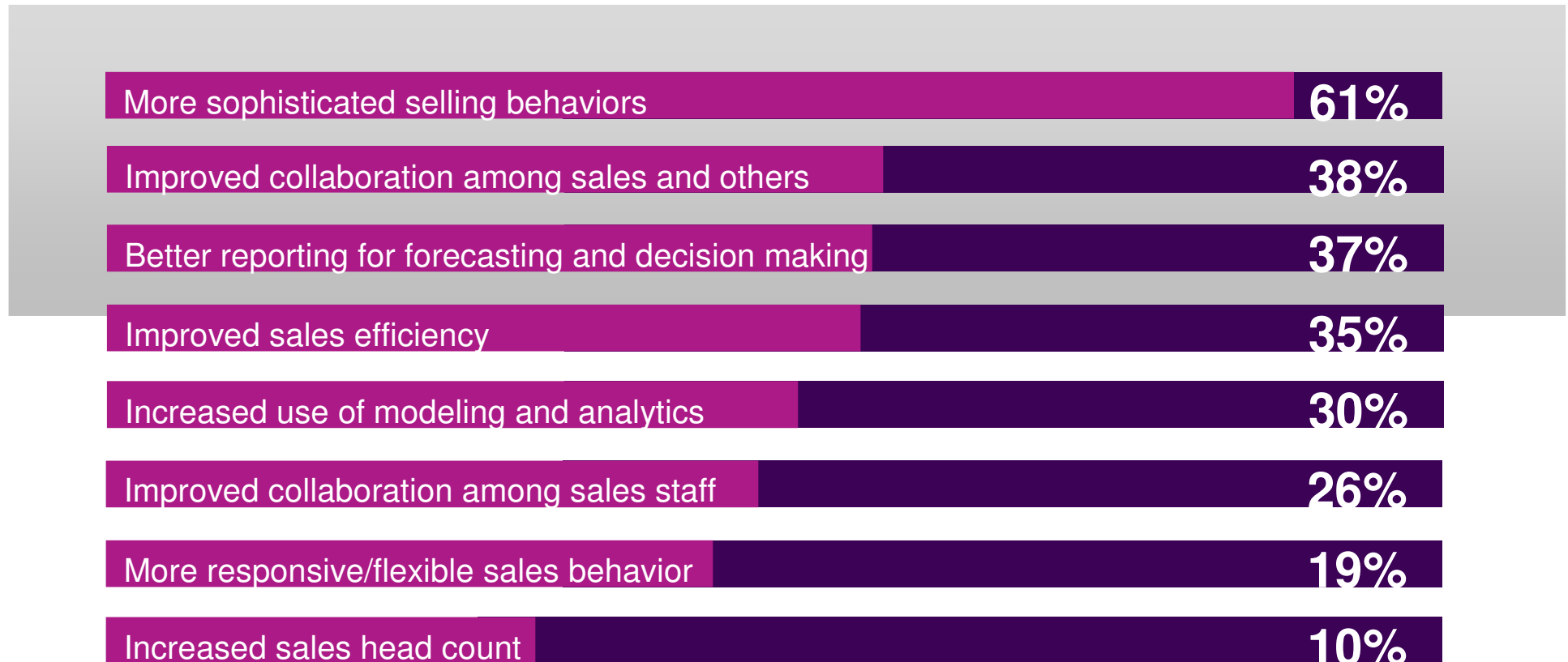


## What role does finance play?

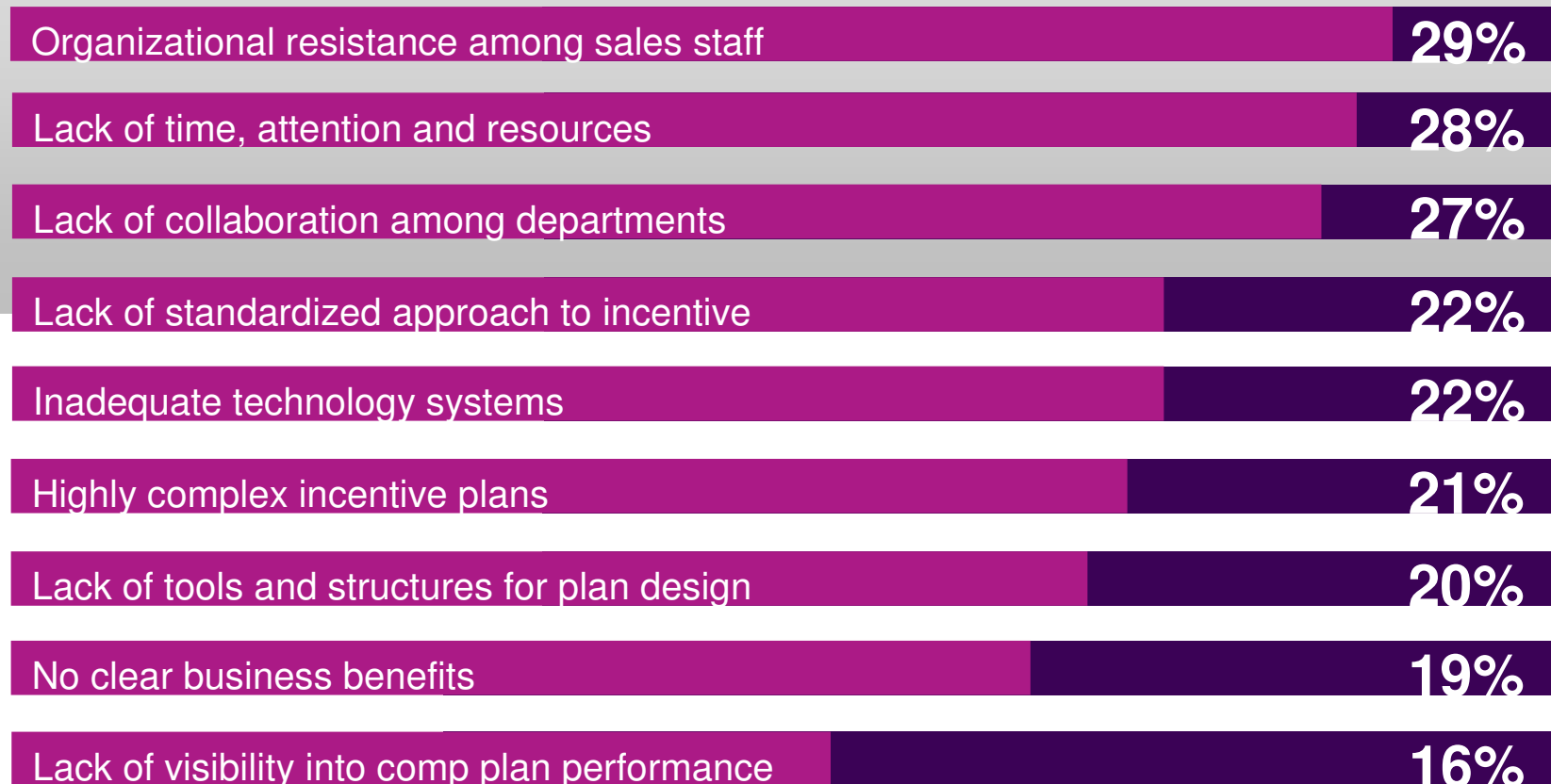




## Finance perspective: areas for improvement



## Finance perspective: barriers to improvement



## Critical lesson learned: align sales and finance priorities



### Sales

- Increase revenue
- Reduce complexity
- Decrease cycle times
- Reduce errors
- More analytics
- More time to sell



### Finance

- Improve margins
- Increase sophistication
- More regulation
- Information faster
- Reduce IT/admin costs
- More self-service

## 2013 table stakes

- Clear governance process and calendar
- Accurate and timely payments
- Easy statement and transaction access
- Comprehensive and user-friendly documentation
- “Baseline” management reports
- Auditing and tracking controls
- Reasonable system change timeline
- Disputes resolved in timely manner



# IBM Cognos® Incentive Compensation Management software drives key imperatives



Smarter analytics

1

Grow, retain and satisfy customers

- Coverage model and role deployment
- Sales priority linkages to the field
- Insight to sales effectiveness

2

Increase operational efficiency

- Compensation process scalability
- Flexibility and resource optimization
- ICM and quota cycle time decreases

3

Transform financial processes

- Incentive and sales forecasts
- Program impact and modeling
- Error and dispute reduction

4

Manage risk, fraud and regulatory compliance

- Auditing and compliance tracking
- Program governance
- Program and process reporting

## Call to action

- Establish ICM guiding principles
- Survey the field—executives, managers and plan participants
- Conduct self-assessment and create ICM gap analysis
- Create alternative paths forward
  - Technology dependent
  - Technology independent
- Create the case for change
  - Alignment/aspiration outcomes
  - Hard dollar/efficiency outcomes
  - Regulatory and compliance
- Find a field champion



To learn more

CONVERSATIONS ON SALES  
PERFORMANCE MANAGEMENT:  
INVESTING IN THE RIGHT PARTNER

## The Payoff: A Company of CFOs

*"We want as many eyes focused on the **GROSS PROFIT LINE** as possible."*

— CFO, PROVIDER OF  
MOBILE MESSAGING  
SERVICES

WHEN ONE ASSISTANT VP OF SALES OPERATIONS AT a media company reviews the benefits the company has secured from adopting an SPM system, he quickly arrives at a number: \$500,000. That's how much the company has saved in staffing the unit that handles sale-compensation support. "You had this big staff sitting in the background, answering questions to justify the payments or fixing payments that weren't right," he explains. At the media firm, he says, the arrival of SPM software led to the departure of 50% of those employees.

with government regulations, companies must supply evidence that the financial applications and supporting systems provide the controls and audit trails to make certain that financial reports are trustworthy. Without the appropriate financial controls, companies are exposed to risks associated with inaccurate financial reporting. Manual compensation-management systems aren't likely to leave behind such a clear and traceable path. "If you're sending spreadsheets from person to person for approval, there's no clear way to show who changed what and when," says Mr. Clark of Show

<http://www.varicent.com/cfo/index.asp>

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