Improving Salesforce Productivity: The Role of Incentive Management

A sales incentive management program that alleviates common performance challenges and links the salesforce with strategic company goals can align growth and high performance.

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As the global economy emerges from its three-year slumber, pressure builds for companies everywhere to reinvigorate their growth-generating engines. The most critical component of that engine is the salesforce.

Accenture research has found that despite its importance, the sales function in many companies is not excelling, for two significant reasons: insufficient employee awareness of corporate sales strategy, and basic shortcomings in the behaviors and capabilities of salespeople.

Some companies have attempted to address these shortcomings by creating a pay-for-performance culture – shifting more of what they pay people from fixed to variable compensation – in the hope that money will provide sufficient motivation. Yet in doing so, many have confronted a cold reality. The process and technologies on which they have long relied to devise incentive compensation plans are woefully inadequate to meet today’s unpredictable business environment. Changing customer demands require more agile sales strategies and far more flexible incentive management programs.

While companies expect to use variable and incentive compensation to motivate the salesforce, the shortcomings of their current capabilities for managing incentives often compel them to take overly reactive measures.

Accenture’s research and client experience reaffirms that a new approach to incentive management can eliminate the shortcomings common in most companies and, in the process, transform an incentive compensation plan into a tool that truly influences the “right” salesforce behaviors. Such an approach also can play an important role in more effective people development.

Key to the success of this new approach is the view that a company’s incentive management capability must do more than simply issue accurate paychecks. To reinforce desired salesforce behavior, an incentive management capability must clearly demonstrate to sales participants the link between what they sell and what they earn. Only when salespeople can make an explicit connection between their paychecks, the compensation plan and, ultimately, the company’s sales and corporate strategy, will their selling behavior more consistently align with desired sales strategy.

Growth and Sales Take Center Stage

The economy in most countries is beginning to strengthen. In response, many companies are shifting their focus from cost control to growth-oriented activities. According to a survey of 244 global executives conducted as part of Accenture’s 2004 High-Performance Workforce Study, 42 percent expect their organizations to emphasize growth-related pursuits in 12 months – up from 27 percent who say growth is their primary focus today.

Along with a renewed emphasis on growth comes the recognition that the sales function is critical to capitalizing on growth opportunities. Sixty-one percent of executives participating in the Accenture High-Performance Workforce Study said sales is their most important workforce – easily outpacing customer service (50 percent), human resources (29 percent), strategic planning (28 percent) and finance (27 percent).

Yet despite the importance of sales to the organization’s growth agenda, executives believe the salesforce is not operating at a sufficient level. Of the executives in the Accenture High-Performance Workforce Study who said sales is a top-three function, more than half said their salesforces perform no better than those of their competitors – and, in fact, nearly 20 percent said their salesforces perform worse.

Why the lackluster performance? External factors certainly play a major role. Myriad environmental challenges, including increased competition and commoditization of products, globalization and customers’ focus on strategic sourcing and return on investments, are forcing companies to get better at selling solutions and value, improving sales efficiency, selling more to existing customers and generally doing a better job of leveraging sales representatives and channel partners.

Internal challenges also affect sales performance. One such challenge is that the sales function, along with other key workforces, are not as “strategically aware” as they need to be. In the Accenture High-Performance Workforce Study, just 20 percent of executives surveyed said more than three-quarters of their entire workforce understand their company’s strategic goals, and just 22 percent said that more than three-quarters of their company’s employees understand how their jobs contribute to the company’s ability to achieve those strategic goals.

Without a strong understanding of what the company is trying to

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accomplish, and how their jobs affect that effort, employees are unlikely
to consistently exhibit the behaviors necessary to improve the
performance of their specific functions or overall company performance.

Additional Accenture research reveals that many companies’ sales
functions are underperforming because they simply have not adapted
to the marketplace’s changing demands. In a separate survey of nearly
200 companies, Accenture found the root cause of mediocre sales
performance in the past few years has not been the tepid economic
environment, but rather, shortcomings in the behaviors and capabilities
of the salespeople.

Accenture has found that companies struggling the most with
salesforce performance have a fundamental gap between what the
company overall is trying to achieve – higher revenue targets, new
market entry, market share increase – and how the salesforce acts
on a daily basis. Companies must more effectively align the salesforce’s
behavior with the company’s overall sales strategy.

In our work with companies around the world, Accenture has found
an approach that is particularly effective in achieving such alignment.
This approach, which we call the workforce performance framework,
helps a company strengthen the underlying drivers of salesforce
behavior and ensure that these drivers are eliciting behaviors that
advance the company’s sales strategy.

Four key areas that can influence sales behavior are the following:

■ Learning management, which involves developing the right skills to
  perform the desired behaviors;
■ Knowledge management, which focuses on acquiring the knowledge
  necessary for salespeople to exhibit the desired behaviors;
■ Performance management, which enables a company to specify and
  measure the desired behaviors; and
■ Incentive management, which helps a company to motivate its
  salespeople to act in the desired ways.

In the remainder of this paper we focus on the fourth driver, incentive
management.

Current Incentive Management Practices Hinder Growth
Accenture research dramatically illustrates the profound impact that
improving employee behavior can have on a company’s financial
performance. We analyzed the sales, marketing and customer service
practices at a number of global companies and found that interventions
to motivate and reward people have the greatest potential to positively
impact company profits. Specifically, we found that a $1 billion business
unit could boost its pre-tax profit by $13 million by using better
motivational tools and incentives to raise the performance of its people
from average to high.

Incentive management also is a pain point in many companies.
We have found many organizations suffer from key shortcomings that
make it difficult to more effectively influence salesforce behaviors.
At the most basic level, incentive compensation administration is
cumbersome and error-prone because most companies rely on inadequate homegrown technology applications or elaborate multi-layer spreadsheets. Besides being hard to adapt when market conditions change or product lines evolve, these systems often result in higher administrative costs, decreased productivity and lost salesforce confidence in the overall incentive compensation process.

Consider, for example, the complex implications for compensation
when sales territories are realigned or sales positions are changed mid-
pay period. Such changes require the enterprise to track and calculate
accurate incentives for both former and new staff assignments – not
only tracking direct sales credit but also accounting for multiple shared
credit assignments. Clearly, the administrative challenge for such
legacy-constrained enterprises is immense and often results in over-
payment of compensation.

From a behavioral perspective, sales participants often “drop the
ball” when making the transition to new assignments. Introducing
transition bonuses often is impossible or, at best, quite difficult and
costly. As a result, companies generally wait out changes until it is
convenient to change the compensation system, which grossly reduces
the company’s ability to adapt to market changes.

Furthermore, such legacy applications often limit companies from
launching new incentive plans and measures – in many cases, imposing
lead times of three to six months and significant direct technology
costs to implement incentive plan changes. Often companies decide
the prospective IT expense cannot be supported, thereby delaying the
rollout of new market-competitive plans and further burdening an
already manually intensive process (with all its attendant risks and
potential for error).

Making matters worse is the lack of attention that incentive manage-
ment receives from senior executives. We conjecture that if executives

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Read the paper, “How Many Sales Are You Losing Today” from
were asked to name the top 10 capabilities most critical to fund – in order to improve sales performance – incentive management would consistently come out at number 11 or 12 on the list. At the operational level, the typical large organization has, at most, 10 to 14 people administering incentive compensation. Because senior executives tend to view improving the administration of incentive compensation as simply an exercise in operational effectiveness, the corporate gains of increased efficiency for 10 people will probably not generate sufficient excitement.

If executives expanded their view of incentive management as a key strategic tool, they would acknowledge the implications of ineffective incentive management to extend far beyond negligible productivity concerns with a dozen employees.

A New Approach to Incentive Management
Improving the incentive management process is critical to a company’s ability to meet target sales objectives. There are two distinct approaches to improvement, each with its attendant benefits.

The most basic approach, and the one that companies most often embrace, involves focusing strictly on upgrading the technology used to administer incentive compensation programs. Certainly, this is a step in the right direction. By refreshing the technology, a company can relieve some of the administrative burden and subsequently reduce compensation cycle times, improve compensation accuracy and cut administrative costs.

However, in Accenture’s experience, companies can realize much larger and more strategic benefits by approaching incentive management improvement opportunities with a holistic perspective and featuring next-generation incentive management technology solutions as central components of business process-led programs. More than simply involving a technology upgrade, such an approach addresses the deeper need to more closely align salesforce behavior with sales and corporate strategy and, consequently, improve revenue while reducing incentive compensation management administration costs.

This approach views the incentive management process as comprising four principal elements:
1. Plan design, which covers such issues as sales planning; compensation budgeting; objectives, quota and territory management; incentives design; and integration with total rewards.
2. Plan set-up and administration, which includes plan modeling; business rules definition; plan creation and changes; hierarchy and participant management; and sales plan communication.
3. Incentive compensation processing, which involves data gathering and validation; sales credit assignment; compensation calculation and payment; research and inquiry management; and adjustment processing.
4. Reporting and analysis, which covers query, reporting and analytics; earnings estimation; plan diagnostics; and audit trails.

Today, compensation professionals spend an overwhelming majority of their time on setup, administration, adjustment processing and reconciliation. By creating a more effective incentive compensation process, a company can free up these individuals to focus on the more value-added activities of design, modeling, forecasting and analysis. Next-generation incentive compensation management software provides tools to further support those value-added activities, thus transforming incentive management from a primarily administrative task to a more strategic activity with a much broader and more significant impact on overall corporate performance. In short, this approach replaces a company’s inefficient and ineffective incentive compensation management legacy application and processes with an optimized incentive management capability that encourages more appropriate salesforce behavior.

Benefits of Improved Incentive Management
The biggest benefit of this optimized capability is the tangible integration of the sales planning and incentive compensation management functions, enabling changes in corporate and sales strategy to rapidly travel through the sales compensation plan and the plan’s mechanics, and directly reflect in an individual salesperson’s results and paycheck. Why is this important? In many industries, salespeople often are not fully aware of their company’s current sales strategy. They also typically do not understand how this strategy determines their compensation plan (although it virtually always does) and, ultimately, what they actually earn. From their perspective, the incentive compensation process often appears to be a black box. While improved salesforce automation capabilities have improved their awareness of recorded sales credits and deal mechanics at the point of booking, the rationale behind the accounting for their ultimate compensation number is a mystery.

An optimized incentive management capability delivers frequent and detailed reporting, self-service tools and access to detailed compensation information, with full traceability from strategy to plan to deal transaction(s) and paycheck. As a result, sales participants become better informed of their individual role in delivery to the sales strategy.
One example of this type of self-service enablement is an online earnings estimation capability. Using such a tool, a salesperson can model what his or her financial reward would be depending on how a deal is structured. Reliable, detailed and frequent Web-based reports help salespeople keep up to date on their quotas and other performance goals. And self-service tools currently delivered through next-generation software solutions enable salespeople to more directly manage inquiries and adjustments on their own, resulting in a more timely resolution because they get the right information when and where they need it. Improved salesforce confidence results in reduced “shadow accounting” – time salespeople spend independently reconciling sales payouts and maintaining their own mini-compensation systems.

In addition to encouraging sales behavior that is better aligned with a company's corporate and sales strategies, an optimized incentive management capability delivers several other important benefits:

1. **Improved incentive plan design and implementation.** The incentive compensation plan is owned by sales. However, several other company stakeholders play significant roles in its development and use, including marketing, human resources and finance. The collaboration tools included in the incentive management software solution help directly engage these groups in the design process to ensure buy-in and help smooth rollout. Furthermore, a plan-modeling capability within the software solution enables the company to test-run alternative plans and assess the financial impact of each prior to implementation. This integrated forecasting and analysis helps ensure that the right plan is implemented in a timely and predictable manner with greatly improved control processes. In fact, the ability to rapidly introduce a new plan or incentive measure to market is often a major competitive advantage for companies in fast-moving industries, where a legacy application may force a costly three- to six-month change cycle to accommodate plan changes.

2. **Automation of key activities.** A well-designed software solution automates previously manual activities, including compensation reconciliation, adjustment processing and incentive credit assignment. This dramatically reduces the time compensation administrators spend on these activities. Streamlined processes and improved integration allowed one Accenture client in the telecommunications industry to reduce the lag time between the recording of a sale and issuance of commission to the appropriate sales participant from 60 days to one. This reduction tightly ties effort to reward, which is critical to motivation. Another company, by replacing its legacy platform with a next-generation software solution, reduced the support required from the IT department and compensation administrators by 40 percent.

3. **Better business intelligence for the company.** Because the software solution automates administrative activities, compensation administrators have more time to focus on value-adding activities such as analysis and forecasting. Furthermore, the new process enables company decision makers to conduct plan diagnostics so that the company can more effectively measure the plan's performance. And, new and improved capabilities can help the company project what-if compensation scenarios in relation to changing growth targets without having to do labor-intensive manual analysis.

4. **Improved accuracy in plan operations.** With the new software replacing manual or patchwork systems, a company can experience dramatic improvements in the accuracy of compensation calculation and a reduction in the incidents of incentive overpayment. This alone can add up to big money. A recent study by Giga Information Group found that between 3 and 5 percent of a typical company's sales budget is consumed by overpaid sales compensation. A major contributor to this increased accuracy is the fact that the plans emanating from the new process are designed to be based on...
objective data sources, not self-reported or derived data and, in practice, are supported by systems-based calculation engines with automated data feeds from key corporate systems such as enterprise resource planning, payroll and human resources.

5. **Improved compliance with Sarbanes-Oxley.** The tools and processes associated with optimized incentive management create and maintain easily accessible audit trails for payments and adjustments. Compensation adjustments are more directly attributable to source data changes and recalculated with full traceability, as opposed to offline calculations and cash-based debits and credits. Plan design and implementation via spreadsheet analysis and subsequent IT-intensive programming changes are left behind in favor of an approach where modeled and approved incentive plans are predictably migrated to production within the same system.

6. **Standardized compensation plans across salesforces.** Many organizations have grown through acquisition or mergers and, thus, have decentralized compensation programs and multiple compensation systems – supporting in some cases, hundreds of plans and myriad salesforces. Implementing a new incentive compensation system allows an organization to standardize these disparate compensation processes, plans and systems to better realize the benefits of improving flexibility to act in accordance with differentiated market and geographic needs.

An important byproduct of a more effective incentive management capability is increased salesforce retention. Like anyone, compensation is important to salespeople. If they feel they have to jump through hoops or wait too long to receive compensation due them – or if it is unclear what they have to do to earn more money – they likely will move on to another company. Such a scenario is particularly troubling for businesses that rely heavily on brokers, dealers, distributors and other third parties who are not employees and can more easily find a new company to represent. For instance, an insurance broker already has a book of business and, in fact, essentially owns the customer relationships. If unhappy with how the insurer manages compensation, the broker can shift support for that insurer or switch completely to a competitor’s suite of policies. One large insurance company has spent several million dollars over a number of years trying to develop a market-relevant compensation structure and plan but, constrained by its outdated compensation management system, has not been able to successfully deploy the full scope of planned changes and has been saddled with a reactive capability and major retention issues with key brokers. Given the pace of change in today’s business environment with competition and regulatory pressures, this insurer faces a distinct competitive disadvantage until it can break that logjam.

**Aetna: Optimized Incentive Management in Action**

One company that has broken the logjam is Aetna. This health insurance leader currently is pioneering the use of new methods and technologies for incentive management to move to a higher level of overall business performance. With more than 26 million members and $18 billion in revenue, Aetna is the leading U.S. provider of healthcare, dental, pharmacy, group life, disability and long-term care products. The company launched an initiative to enhance its growth strategy to focus on driving sales through its independent agents and brokers. Aetna sought to replace its existing systems with a mission-critical compensation system that could manage complex plans and process enormous transaction volumes with minimal IT support, while accurately paying commissions to more than 35,000 agents and brokers.

By coupling deployment of Callidus TrueComp software with a redefinition of internal business processes and broker interactions, Aetna has not only realized efficiency gains, but it also has increased its broker satisfaction levels. In addition, Aetna has improved its ability to audit the incentive compensation processes.

By creating an optimized incentive management capability that clearly illustrates the link between strategy, performance and paychecks, companies can more effectively align salesforce behavior with the company’s goals. And in doing so, companies take an important step toward boosting the sales function’s ability to advance the growth agenda, as well as enable the salesforce to make a significant contribution to the pursuit of high performance.

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