

The Sales Compensation Revolution

Xactly CEO Chris Cabrera shows how to take spreadsheets out of sales comp

According to the technology consulting firm Gartner Group, sales compensation, when handled effectively, can improve sales performance by 5 to 10 percent. What's the catch? Putting an exemplary sales compensation system in place and then implementing it stringently and with complete accuracy is, well, like rounding up a flea circus and getting it to perform on cue. Sales compensation, simply put, can be a nightmare.

Compensation design alone is highly complicated and subject to frequent adjustments, and executing even a simple compensation plan can be messy, delayed, and subject to error and confusion. For the larger sales force, executing the more complicated compensation designs can be even trickier. Reps may feel they're not getting what they deserve. Systems can be opaque and open to, shall we say, interpretation on both sides. Sometimes both sides feel they're not getting fair treatment, and then there's the lag time between making a sale and receiving the reward. On the other side, to run an effective sales force, management needs accurate numbers at a moment's notice. Companies can no longer depend on accounting scribes sitting in a back office manually looking over every sale for every rep.

Chris Cabrera, CEO of Xactly, believes he has a highly improved solution for executing sales compensation based on a better designed, more affordable system.

Cabrera came up through the sales ranks of Silicon Graphics in the 1990s and then joined Callidus Software. Callidus wanted to take sales compensation from the Excel spreadsheets used by the overwhelming majority of companies to the next level – software specially designed to handle sales compensation. The approach worked, and in seven years Cabrera took the new approach from zero to \$100 million in annual sales. He wound up as senior VP of operations, responsible for worldwide sales.

But Cabrera also wanted to deliver a high-power, sales-compensation application under a Software-as-a-Service (SaaS),

multitenancy model. In 2005, he started Xactly to do just that.

"Every company had pain and knew it needed to automate sales compensation," Cabrera remembers. "But they did not want to spend millions of dollars to do it. So a lightbulb went off in my head. There was a better way to do it."

Installed compensation software requires up-front investment for the application, installation, and hardware, as well as commitments by company IT departments. Xactly's new application, Incent, would instead reside in "the cloud" – the Internet itself – but would be available to all reps, managers, and other staff and accessible on their own PCs.

Cloud computing was not as fashionable back then as it is now, but Cabrera saw the possibilities of the new approach.

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He also saw prospects' resistance to the old, more expensive method. Under SaaS, clients could rent the application rather than buy it. The time and expense of implementation could be reduced dramatically, making state-of-the-art compensation software affordable for firms with as few as four to five salespeople.

"Nobody else is doing it the way we do it," Cabrera emphasizes. "We built it from the ground up."

What Xactly built in Incent is a much more accurate, faster, and more flexible way of using sales compensation to drive rep behavior. For example, sales compensation with Excel spreadsheets often yields error rates of 3 to 6 percent. That frustrates both reps and accountants. It can also cause losses large enough to justify a better approach. And traditional methods mean that reps customarily receive their commission or other performance-based compensation a month or so after sales actually close. So they learn how well they did long after they did it.

Reps do not get paid any sooner with Xactly. But they can find out every day just what their actual compensation will be for the latest deals they have closed simply by logging in to their CRM systems. Xactly is linked with Salesforce.com, Microsoft, and Oracle CRM applications. Reps can even ask for "what-if" calculations of compensation on deals that they are still contemplating, pursuing, or negotiating.

With five years' experience, Xactly can handle just about any sales compensation plan a company might want to use – and probably a few that most firms might think too complicated to use, as well. It can pay different commission rates for different products if different margins justify that approach. Kickers, escalators, thresholds, and other variations are no problem for Xactly.

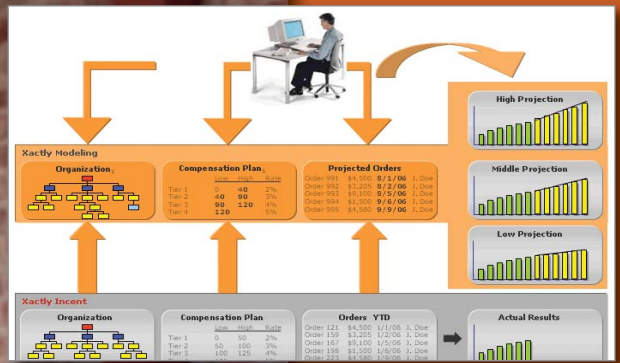
Cabrera says he still discourages too much complexity in sales compensation, but Xactly makes results so instantly clear to reps that confusion may be less of a challenge. A company can thus think more aggressively about designing plans to maximize sales, profit, or strategic goals. And Xactly's modeling tool lets managers simulate the results of different compensation designs. That is a crucial step in coming up with a best-practice, sales-compensation plan or in tweaking a compensation plan periodically to better influence results.

The potential gains are obviously most dramatic when a firm moves away from fixed compensation toward performance-based pay. Cabrera cites one client that used Xactly to shift its retail clerks toward incentive pay. The firm quadrupled sales in several of its stores with this method.

For business-to-business salespeople who already receive performance-based compensation, the gains would be less startling but still substantial. "It is all about getting them to do exactly the things you want to them to do," Cabrera says.

He argues that a three- to four-week delay in finding out what commission has been earned is simply not as motivating as

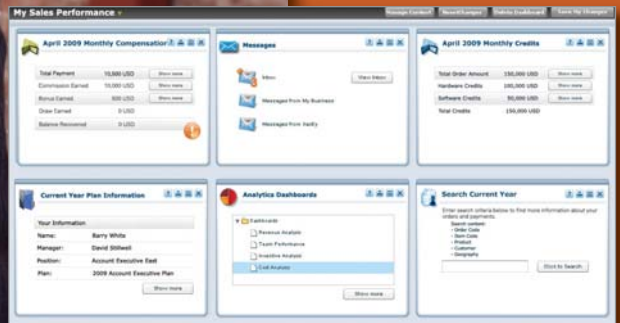
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COMPENSATION MODELING



EXECUTIVE ANALYTICS



MODELING SCENARIOS



TEAM SUMMARY



TRACKING INCENTIVES

new solutions for managers

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retrieving that information instantly. “With Xactly, [reps] can find out every day, sometimes four times a day.”

Xactly also supports a wide variety of noncash incentives. Its rewards tool lets managers run contests, special performance incentive funds (SPIFs), and other incentive programs. By earning Xactly Rewards points, reps can choose from millions of merchandise and travel options. Or the rewards tool can track each rep’s progress toward that big President’s Club trip at year’s end. Whether the incentive is based on measurable and reported behavior, cash or not, Xactly can handle it.

Setting a sales-compensation plan up on Xactly is also easy, compared to the alternative. Even the largest Xactly clients take only about eight to twelve weeks to

get up and running on the system – much less time than it generally takes to implement installed compensation software. And on November 17, 2009, Xactly will launch Incent Express, which will allow smaller companies to simply upload their Excel spreadsheet formulas and be up and running with a few clicks.

If Xactly’s approach is so much better, why aren’t other vendors also offering it? Cabrera says sales compensation is often complicated with many metrics and formulas, varies widely from company to company, and relies on millions of transactions. It is thus very computation-intensive. Only a firm with extensive experience in sales compensation can really do it well. Even Xactly limits its market to firms with up to 5,000 payees.

Below that limit, the possibilities for

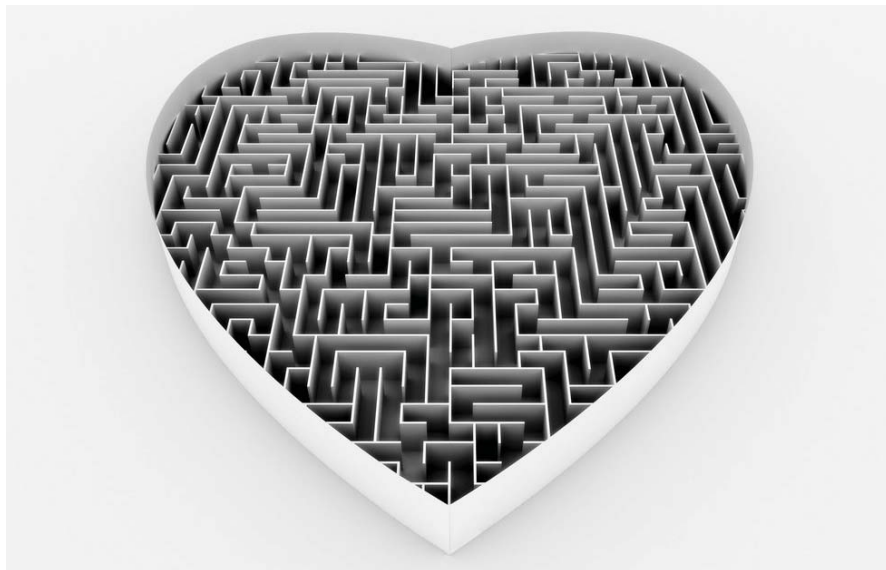
improving rep behavior are enormous. Cabrera explains, “Imagine a company that uses Excel to pay its reps, and the sales VP comes in to accounting and asks if he or she can pay different commissions on different products because margins are different. The [accountant] would say, ‘Are you out of your mind? Get out of my office.’”

Xactly can handle that kind of change easily. Cabrera jokes that salespeople are often called “coin-operated machines,” but he continues, “That is not necessarily a bad thing if you can tap into that motivation to drive behavior where you need it to be.”

Xactly has been tapping the need for motivation with its SaaS model very successfully. The company enjoyed triple-digit growth during its first three years and has maintained that pace even during the recession of 2009. — HENRY CANADAY

Incentives

Food – the Way to Your Customer’s Heart



Rock On

Hard Rock Café has been winning the loyalty of young people, families, aging Baby Boomers, Gen-Xers, and Millennials for decades now. Its great food and atmosphere make Hard Rock the place where people simply like to gather, for lunch, dinner, or while on vacation in some exotic destination. Your best customers are likely to know and love the famous brand and appreciate you picking up the tab the next time they visit it. For more information, please visit www.hardrock.com.

A Big Catch

Treat your biggest catches to Omaha Steak’s fresh-from-the-ocean lobster tails. Seafood lovers can indulge in the rich flavor of Omaha’s cold-water rock lobster tails and warm-water lobster tails. Or serve them an elegant pasta dinner of lobster ravioli filled with tender chunks of whole Maine lobster meat. Then there is the velvety richness of lobster bisque or, for a change of pace, lobster mac and cheese and lobster mashed potatoes. For more information, please visit www.omahasteaks.com.

Incentive for Every Day

Quiznos is special yet simple and informal – just like how you want your relationships with great customers to be. Every Quiznos sub is made with special spices, freshly-sliced meats, and vegetables piled high on Quiznos bread of your choice. The subs are then **toasted until golden brown**. Whether they are composed of prime rib, mesquite chicken, Italian cold cuts, roast beef, turkey, or ham, Quiznos subs say thanks in a way that is straightforward yet sure to be warmly remembered. For more information, please visit www.quiznos.com.

A Night Out

Customers who made your firm a winner can dine on dishes that won T.G.I. Friday’s Ultimate Recipe Showdown. These include some truly great meals. For example, the Gourmet Mac N’ Five Cheese features a rich and creamy blend of five cheeses – fontina, blue, Gruyère, white cheddar, and parmesan – crispy bacon, and penne pasta, all atop a grilled chicken breast. Then there is the Triple Stacked Burger, a juicy beef patty with sharp cheddar and Monterey Jack, topped with ham, bacon, and pickles and served with fresh, home-style potato chips. Spiced **cupcakes and vanilla lemon ice** round out TGIF’s dining champions. For more information, please visit www.tgifridays.com.

— HENRY CANADAY