CFO CALL TO ACTION:

Align Sales and Finance with a Cloud-Based, Incentive Compensation Solution

EBOOK

Imagine a company where Sales and Finance agree on everything; a company where Sales never mumbles under their breath about the penny pinchers in Finance, where Finance never wants to tell Sales to take a hike when the request comes in for yet another SPIF. Where these departments aren't just colleagues, but become, dare I say it, friends? This may be so far removed from your day-to-day experience that you can't even wrap your head around the concept of the two adversaries getting along. But, if your organization takes the initiative and automates their incentive compensation process, you'll have remedied the main point of contention between Sales and Finance, and brought your organization together again. Isn't that a beautiful thought?

The solution to bridging the infamous divide between these two departments is technology. In many organizations, Finance has replaced time-consuming annual budget exercises with rolling forecasts, leveraging software tools like Business Intelligence, big data analytics, and Corporate Performance Management to transform dense data into insightful and actionable information. These sophisticated technologies guide where best to allocate capital in order to seize business opportunities and generate profitable growth.

To align Sales and Finance, one more tool needs to be added to this battery of top-level financial planning and budgeting solutions – incentive compensation. As there are seven continents, seven seas, and seven wonders of the world, we've provided seven reasons why Finance needs to get a better grip on sales incentive compensation to wield it to the company's advantage.

REASON 1: PLANS AND AFTERTHOUGHTS

When it comes to incentivizing salespeople to generate revenue, the tendency is to separate this process from other business operations. Sales commissions tend to become an afterthought, with little consideration given to the underlying data. Just as an organization's product strategy or human capital can be misaligned with its corporate objectives, so can sales commissions – with potentially dire outcomes, from frustrated sales reps to serious margin shortfalls.

Lets say, for example, that the senior executives of a company looking to become a billion dollar business gather in the boardroom to discuss their strategic goals for the upcoming year. The CFO pipes up to provide their plan to maintain revenue levels and increase profits by cutting costs, and to keep a close watch on net income. The CEO responds with a different goal – driving more revenue. The product leader intervenes, noting a new and highly innovative product in the pipeline that is ready to sell like hotcakes. This gets the VP of Marketing to comment that no one is talking about market share even though the company is in a highly competitive industry.

Four different goals are now on a whiteboard. At last, the VP of Sales enters the conversation; "We need to design the sales incentive compensation plan." Everyone looks at them, and wonders why they were invited to the party in the first place. The CFO responds, "You've got 100 salespeople working for you, and we want to be a billion dollar company. Just take a billion dollars, divide it by the number of sales reps, and there's your front-line quota."

Left alone in the room, the Sales VP runs these numbers. Some reps won't make the quota, there are a few job slots left unfilled, and the rock star sales reps are a small component of the team. Just like that, Sales is not in sync with the other departments. A deep breath is exhaled, as the incentive compensation structure is cobbled together and nailed to the budget.

A new year launches with the new strategy in full force and the group reassembles in the boardroom at the end of the first quarter. The VP of Marketing announces their intention to conduct a contest rewarding measurable market share gains in Oklahoma, in addition to a SPIF bonus involving the company's new product rollout. These incentive compensation features are now added to the budget, which from a sales standpoint is beginning to look a bit like a Franken-budget. Certainly, this is how the compensation plan looks to the frontline sales rep in Tulsa, who is thinking, "I thought I was going to make this much money for this much revenue. Now, I've got this contest for margin, and a SPIF for the new product rollout. No way I can do both at once; it's either revenue or margin."

The end result is obvious. The sales team is completely out of sync with the company's business objectives, as the rewards guide them in a number of directions. The organization thinks that the incentive compensation plans are aligned with strategic plans, but as the year progresses, misalignment creeps in. Soon, individual plan components are in direct conflict with broader business goals. The message? You cannot separate the compensation plan from the strategic plan; they should go together like peanut butter and jelly. But by not aligning sales incentives with corporate strategy, companies may be incenting the wrong behavior and leaving lots of money on the table.

The solution is to look at all the components of the incentive plan individually, and then map them back to the business objectives to ensure strict alignment. If the strategy calls for an expansion into new markets, the sales compensation plan must have a clear and separate metric recognizing the market expansion goal. Income from the current client base would then be tracked separately from the prospective client in the new geography, and rewarded accordingly.

REASON 2: THE POWER OF THREE

Salespeople are human beings like the rest of us, with only the occasional multi-tasking Mensa member among them. If the sales incentive compensation plans have north of 6 components, reps won't know where to focus. Their heads are left spinning from incentives linked to revenue, margin, churn, new sales, and more; ultimately leading them to choose which incentive to pursue. Unfortunately, their choice may not end up being in line with what the strategic plan calls for.

A compensation plan with too many incentives is sure to end badly. Incentives need to be transparent, orderly, easy to digest, and few in number. Toss a handful of different ways to make money at a sales rep, and they will become distracted, losing sight of the forest for the trees.

There's an old and possibly apocryphal story about General Electric's Jack Welch that underscores the need for simplicity and clarity. Jack supposedly hired a consultant to advise him on efficiency measures. He and the consultant toured the GE plant together for the good part of a day, with the consultant taking copious notes.

When the tour concluded, Jack asked, "So, what do you think?" The consultant responded, "I'm done. I can give you my recommendation right now." Jack was flummoxed. "You mean I'm paying you $50,000 and you're already finished?"

"Yes," the consultant said. "Here's my advice. Each day I want you to come in and write down three things that you want to accomplish. Then, get them done. Your problem is that you have so much stuff going on, you're not doing any of them well."

Jack happily handed over the check.

What constitutes 'too much?' Well, anything higher than three. A trio of incentives can motivate salespeople in carefully plotted directions that are consistent with strategy. Each of the three metrics must motivate visible and attainable goals. If you offer more than three measures, no one will be able to hit them. Even rock star sales reps falter after three.

Stretch goals are fine for incentive compensation, as long as they're not impossible. Studies show that if you hand two groups of students the same math test with three sets of questions – one easy, one challenging but doable, and one very difficult – and then offered to pay one group $10 per correct answer but nothing to the other group, the results will vary with each set of questions.

With the first set of easy questions, both groups got the same number right. With the last set of tough questions, a similar outcome was reached. With the middle set of questions, the students offered the incentive money scored a much higher percentage of correct answers. Why is this the case?

Well, all the students were capable of answering the easy questions, so the bonus payment was irrelevant. Similarly, the tough questions were so difficult that no amount of money could change the outcome.

However, in the middle, where the questions took a little more effort to solve, students had a choice – they knew they were capable of the work, but it would take a little extra effort to provide an answer. With and without an incentive on the line, the choice was clear for each group.

So, for an incentive to motivate a sales rep, it must be both clear and achievable. You're effectively throwing money away on an easy objective, and you're wasting time with objectives that are too difficult to complete. Why incentivize a salesperson for a measurable increase in national market share when they are responsible for your SoCal territory?

REASON 3: TOO MUCH, TOO MANY

In most organizations, Finance cuts the commission checks. The number of checks they cut can affect the bottom line, but that number is just as important as the amount of each check. Does Finance sign a few checks, a couple dozen, or north of a hundred for a single transaction? In other words, are too many people, including the wrong reps, being rewarded?

If Finance is compensating sales team members whose contributions aren't crystal clear, then there is a very good chance that the company is over-sharing the wealth with individuals whose efforts pale compared to the labor of others. Obviously, such behavior can have a disastrous impact on employee engagement and productivity.

Roughly 75 percent of companies pay five salespeople on a typical deal. That's a good number, but what about the other 25 percent of organizations? They're over-sharers. They need to assess their sales teams' individual proficiencies, establish clear roles, and then parse the income based on their respective contributions.

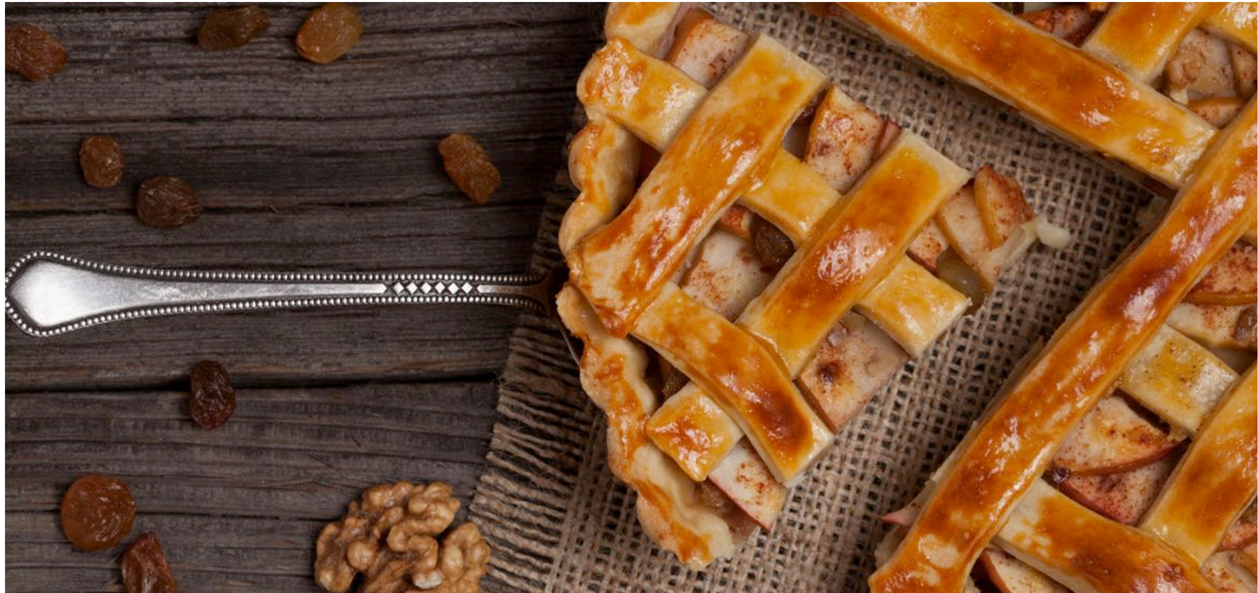
A world-class sales team should be composed similarly to a topnotch football team. Not every player has the skills of a quarterback, defensive end, or linebacker, but their combined talent makes for a well-rounded team. Same with sales – the sales leader may not necessarily be the best rep. They sets goals, teach sales skills to the team, monitor and guide their progress, and makes sure they maintain focus. This leader should be measured and rewarded differently from their teammates.

The traditional sales rep charged with bringing in new business—the rainmaker account executive, brings other skills to the team. Similarly, they should be rewarded based on their respective role and proficiencies, such as stretch goals for increasing profit, improving product mix, or widening market penetration.

Other sales team members have different roles and tasks such as pre-sales support, sales development, and renewals, all of which require explicit incentives to influence specific actions. It's the job of the CFO to figure out with the VP of Sales how much of the company's resources should be dangled like a bunch of carrots to different team members.

It makes no sense to reward everyone the same, even for a big deal in which many people played roles. The sales rep that just happened to meet a future customer at a trade show is not as important as the sales rep that closes the deal after the introductions are made. Each deserves a piece of the pie, just not the same size. And by the way, that pie should have five slices, no more than that.

One last thing – you need to feed the troops. There are few things more de-motivating than a sales team impatiently waiting for dinner and being fed crumbs in the interim. While frequent "Attaboys!" and Lucite plaques are great, only money on the most recent deal will motivate sales reps to set their alarm clocks earlier and nail their next demo.



REASON 4: DITCHING THE DISINCENTIVES

The connection between sales behavior and rewards is either a powerful motivator or a destructive de-motivator. Certain practices must be discouraged: Holds and releases, capped commissions, and lagging payment timing.

Take the case of holds and releases. Say an employer has a liquidity problem caused by the tardiness of a specific account. The sales reps attached to the account worked hard and performed their due diligence. In other words, they did what they were supposed to do. The time has now come to pay them – so pay them! Cash flow is an accounting problem; it is not a sales problem. The salesperson's job is to become the client's best friend. Don't make the sales rep a collection agent harassing the customer base to write checks. Pay the reps as early as possible – preferably when the deal closes. With their wallets fat and happy, they can move on to close the next deal.

Sales reps deserve better than an annuity, paying them in stops and starts for work that was concluded months earlier. Paying in arrears months later is downright demoralizing. Fail to take this advice and guess what happens – salespeople coast.

Capped commission plans also need to go the way of the horse and buggy. Capping commissions virtually guarantees a rep's deceleration. The problem with gargantuan incentive payouts is how they were devised in the first place. If they bring in amazing deals, then you need to pay them for it. You should want your best reps driving nicer cars than the CEO. Cap the commission and reps won't reach their full potential. Neither will the company.

REASON 5: PURPOSEFUL PROFITS

Ditching commission caps and overdue payments is all well and good, but there is a flip side to the coin – unexpectedly high incentive payouts that undermine the budget and take a whack at profits. Accelerators, or inexpensive sales techniques relative to their ability to quickly generate revenue, can produce a game-changing market advantage or repel the advances of a competitor from customers and prospects. An accelerator is a great motivating tool for the sales force to go the extra mile, unless they end up going twelve miles and the budget strains from the cost.

If the sales team is expected to reach 105 percent of the revenue goal, and this is modeled in the budget and forecast, the eventual outcome might differ markedly from expectations. Say ten reps ultimately achieve 60 percent of their quota to hit the revenue mark, and two reps achieve 300 percent. Obviously, the latter two reps are carrying the sales load. Their incentive compensation could be stratospheric, with consequent margin impact.

The solution is scenario planning. "What if?" exercises that postulate the possibility of a few high performers earning far more than was planned in the budget must guide the development of the incentive plan.

REASON 6: METRICS, METRICS, METRICS!

Certainly, knowing what is going on in regards to sales is crucial. Gut instinct, intuition, and conjecture are no replacement for solid metrics. Data is sustenance, the bigger the better. Analyze company sales compensation data and then benchmark it against your market, peers, industry, and other standards. This is what gives meaning to big data—plans, performance, payouts, and positions compared across thousands of data points over time.

Not to pat Xactly on the back, but as the first 100 percent cloud-based, multi-tenant compensation software solution in the marketplace, Xactly has the exclusive ability to aggregate and analyze an ever-expanding

set of anonymized customer data to provide actionable information that organizations need to make the most of their sales compensation dollars.

A compensation plan must be built on a solid foundation of data; otherwise, measuring sales success to improve the status quo will be elusive. This foundation should support the capture and analysis of both internal and external data, all of it quantified to improve decision-making confidence.

REASON 7: WADING THROUGH THE MUCK

When the information around sales incentive compensation is comprised of a murky pool of data, there is no way to make sense of it, determine what is or isn't important, or remain accountable for the performance of any given plan. Rather, the organization is bound to confront an audit nightmare. Is this any way to run a business or incentivize your sales reps?

Companies need tools to discern sales compensation data, a process that ensures that anyone who earns incentive compensation can trace each and every payment back to the source, such as a particular behavior or business event. Unfortunately, this is rarely the case.

An all too frequent scenario is that sales reps receive incentive compensation checks at the end of the quarter on deals that closed months before. Unable to backtrack into the commission check, the sales rep has no idea how the dollars line up, or how much money they are making. The bottom line for all organizations is to elevate incentive sales compensation to a key metric of company performance. It should not be an afterthought. Settle on a strategy, and outline the incentives that will bring it to fruition.

These are the seven reasons we believe Finance is missing out on a key way to boost profit margins. To ensure that this call to action does not fall on deaf ears, contact a member of our sales team to discern for yourselves how for your organization.

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