4 Best Practices to Increase ROI for Sales Incentive Compensation

EXECUTIVE GUIDE

EXECUTIVE SUMMARY

Momentum for sales performance management (SPM) solutions is accelerating. While just six percent of organizations implemented an SPM solution last year, nearly 30 percent plan to adopt SPM in the next 12-18 months.[1]

Covering sales planning, incentive compensation, and performance optimization, SPM solutions power business growth. In an environment where 69 percent of organizations don't hit revenue targets[2], C-level executives have begun to recognize the importance of these technologies to contribute to financial goals.

Of them, incentive compensation management represents the core of SPM. Additionally, for the vast majority of companies, sales compensation represents their biggest expense. According to research, companies spend 10 percent of their revenue on incentive compensation.[3] For example, if you're paying 500 sales people $100K a year in incentive compensation, it equals an investment of $50 million annually.

The high cost of incentive compensation, combined with its unmatched ability and value in driving sales behaviors, makes maximizing ROI on this SPM function a critical business imperative. Finance leaders must ensure that teams are managing this investment properly and applying it strategically for competitive advantage.

Analysis conducted by Hobson & Company reveals four ways an innovative and data-driven incentive compensation program can strengthen your ROI and increase bottom line performance:

1. Eliminating errors through automation
2. Reducing costs through operational efficiencies
3. Optimizing programs through digital insights
4. Accelerating time to information

THE BUSINESS COST OF COMPENSATION OVER – AND UNDER – PAYMENTS

Whether a company overpays or underpays for compensation as a result of calculation errors, the business pays a price.

The Hobson study found that, prior to implementing an automated solution, companies annually overpaid up to 3 percent of commission payouts – money basically thrown out the window. If you're paying $50 million each year in incentive compensation, this equates to a loss of $1.5 million. However, when companies underpay commissions, they also pay – in terms of lost employee trust, decreased performance, and even legal costs. After nine years in the courts, HP and Hewlett Packard Enterprise paid a $25 million settlement for delayed and inaccurate commission payments. Oracle has also battled multiple lawsuits for retroactively changing commission contracts.

Further, if reps don't trust that they're being paid correctly and are spending their time tracking commission payments, they're not doing what you want them to do – namely, selling to prospects. Companies report that by switching to an automated ICM solution, they've decreased shadow accounting by reps to less than 0.5 percent.

ENHANCING AGILITY AND REDUCING COSTS WITH IMPROVED OPERATIONAL EFFICIENCIES

In its 2018 report, "From Bottom Line to Front Line," Accenture cites automation as a "foundational objective" for CFOs.[4]

Automating processes brings immediate value to your organization. Before automating incentive compensation processes, companies report that they required up to four full-time employees (FTEs) spending as many as 10 days a month managing commission payments, according to the Hobson report.

Conversely, by digitalizing and automating these workflows, companies experienced a 60 percent reduction in the time spent on incentive compensation. Additionally, companies reported an 80 percent reduction in the time spent creating and routing plan documents and a 50 percent reduction in the number of unreturned compensation plans, lowering the risk of potential down-the-line disputes.

The Before and After of Digitalizing Incentive Compensation:

BEFORE	AFTER
• Up to 4 full-time employees spending up to 10 days/month	• 60% reduction time spent on incentive compensation • 80% reduction time spent creating and routing plan documents • 50% reduction number of unreturned compensation plans
• No digital insights	• 10% higher quota attainment with pay and performance insights
• Up to 3% commission overpayments annually	• Fully accurate commission payouts
• Reduced selling time due to reps' shadow accounting	• Less than 0.5% shadow accounting

OPTIMIZING PROGRAMS WITH DIGITAL INSIGHTS

Seventy-seven percent of CFOs are heading up efforts to improve efficiency through adoption of digital technology.[5] Yet, at the same time, Accenture reports that only 34 percent of finance tasks are currently automated.

Digitalization unlocks opportunity by providing data precision. Organizations cannot afford to overlook digital tools that are already delivering value for their competitors. SPM software is key among them.

By integrating pay and performance insights, advanced SPM solutions enable organizations to benchmark incentive compensation and compensation plans to determine if they're getting a similar return on the investment as other companies. They can compare compensation programs with other companies for best practices, easily and quickly gaining comparative analysis and improving accuracy for business operations.

Data shows that companies able to leverage pay and performance insights for incentive compensation programs have up to 10 percent higher quota attainment than those that do not.[6]

ACCELERATING TIME TO INFORMATION

According to Ventana Research, 52 percent of sales information is scattered across the organization. This, in turn, impacts performance. Ventana Research findings show that 47 percent of companies have inconsistent execution caused by a lack of visibility. In Accenture's study, "The CFO Reimagined," 76 percent of CFOs also state that, without one version of truth across business units, their organization will struggle to meet objectives.

With the ability to analyze and share information cross-functionally, teams can react to information faster, increasing decision-making agility. By digitalizing incentive compensation, you can get instant insight into compensation calculations and get a more accurate financial picture to make better decisions for the business. Finance no longer needs to wait until the month is over to get data. They can access compensation costs on-demand.

With more timely insights into commission expenses, organizations have increased forecasting accuracy up to 99.6%, while simultaneously speeding accruals forecasting.

A TECHNOLOGY INVESTMENT WITH PROVEN AND RAPID PAYBACK

According to the CFO Sentiment Study, finance leaders are emerging as the digital stewards of the future by "using data to foster new, digitally driven business models that help the enterprises evolve and compete in an increasingly complex and noisy environment."

Without the use of digital technologies, companies are operating at a severe disadvantage. Today's finance teams have a unique opportunity to take the lead and drive technology modernization throughout the organization. With the integration of advanced incentive compensation technologies, organizations can better align their sales strategy to business growth and achieve faster payback for one of the company's largest expenses.

Sources:
[1]The Forrester Wave: Sales Performance Management 2019
[2]CSO Insights 2018
[3]2018 Sales Compensation Best Practices Study
[4]Accenture 2018: The CFO Reimagined: From Bottom Line to Front Line
[5]Accenture 2018: The CFO Reimagined: From Bottom Line to Front Line
[6]Xactly Insights performance data

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ABOUT XACTLY

Xactly delivers a scalable, cloud-based enterprise platform for planning and incenting sales organizations, including sales quota and territory planning, incentive compensation management, and predictive analytics. Using this powerful sales performance management (SPM) portfolio, customers mitigate risk, accelerate sales performance, and increase business agility.

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