

JOANNE WALKER

DRIVE SALES AND BOOST PROFIT USING INCENTIVES TECHNOLOGY



You can't open a newspaper or switch on the TV without the headlines predicting a financial 'credit crunch'. The outcome remains to be seen, however organisations are putting plans in place to mitigate their worse fears.

This equates to a review of the business, with particular emphasis on maximising profitable revenue and a renewed effort to bring cost management under control. As a result, sales compensation is under the spotlight and many forward-thinking organisations are implementing strategic compensation policies in order to ultimately drive sales and profitability.

This is especially true in the area of performance-related pay. Analysts estimate companies overpay between 5%-12% of the annual compensation budget. In addition, tracking and reporting compensation for a single employee can cost as much as £1,000 per year. Recent research from Mercer Human Resource Consulting highlights that just one-in-three employers believes its rewards programme is effective in driving performance.

This situation has arisen because many organisations across Europe still rely on spreadsheets to calculate compensation payments. The manual nature of these systems means they are often prone to error, typically by 6%-7%. Combine this with a shift in the sales market which has moved from focusing on volume to value-led sales that has customer loyalty and retention at its heart, and it is evident that sales compensation could be a weak link effecting profitability.

However, this need not be the case. Enter incentive compensation management (ICM) software, which not only automates the commission process, it provides a host of management information (MI) tools. These are invaluable in attempting to impact on the bottom line.

Due to its financial capability, compensation policy should form a strategic part of the business plan, especially as many compensation plans pay out more than the actual sales generated. With automated compensation software, potential incentive schemes can be forecast, modelled and tested, providing accurate MI on sales, before a promotion goes ahead. The transparent nature of the software means there is a clear audit trail so queries relating to pay are dramatically reduced where these applications are in place.

Perhaps the most interesting aspect is that sales behaviour can be directly influenced with strategic compensation plans. This is imperative in fast moving markets where agility is key to remaining

competitive, as in the case of STA Travel. The firm is a leader in student and youth travel and many of its sales staff are young and identify with its target market. As a result, low-margin flights were the mainstay of the company's business. After implementing an ICM software system, STA Travel was able to influence directional selling by using defined incentives to promote other high margin products within the business and align these incentives directly with reward.

STA Travel was able to significantly improve its sales turnover within a 12 month period. Overall the productivity of sales advisers increased by 11%, but sales of more profitable product lines like travel insurance increased by 21%, accommodation by 14% and tours by 6%. More importantly in this example, employees are able to track their individual sales against target via a real-time online statement. A pattern has been identified whereby 100% of all sales staff log onto their ICM system called INCA, 15 minutes prior to the start of their shift and immediately after it has ended. Also the transparent nature of the system has virtually eliminated queries relating to pay.

The key is aligning reward with company profit objectives and although this seems an obvious, common sense approach, it is difficult to execute without the appropriate software tools in place. Compensation policies are increasingly influencing business decisions; complex sales operations such as those at Carphone Warehouse recognise that to remain competitive, commission plans must be flexible and easily adapted. By implementing an ICM solution, Carphone Warehouse anticipates a 10% improvement in productivity and a 1%-2% cost improvement as a percentage of gross margin. Strategic ICM systems are flexible and scalable so are able to react swiftly to market and business changes. The software is also future-proofed, being by its very nature Sarbanes-Oxley compliant.

For the FD measuring the ROI is key and typically the initial return is 12 months. However ICM provides a more scientific approach to driving sales and improving profit margin. The proper use of performance measurement linked to reward structures to drive behaviour, improve productivity, deliver growth and enhance enterprise value which should become a key driver for organisations today.

■ Joanne Walker is managing director of Practique.

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