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# Strategic sales incentives for the 21<sup>st</sup> Century

**Computer technology has changed the way organisations work, bringing benefits in both productivity and profitability. But while packages are increasingly being utilised by HR to plan pay budgets, Jo Walker, managing director of incentive compensation management software company Practique, argues the full business potential has yet to be realised.**

Ask any organisation with a sales force if it has an incentive or reward programme in place and the answer will undoubtedly be a deafening 'yes'. Ask whether this scheme is effective, accurate and does not overpay, then the answer will not carry the same amount of certainty. Attracting and retaining the most talented employees, at all levels, has become an ever more complex challenge. Indeed, recent research by Mercer Human Resource Consulting shows that just one in three companies believe their reward programmes are very effective in doing so.

However an increasing number of forward-thinking companies are tapping into a resource that has proven not only to increase employee performance and drive sales, but also influence sales behaviours, motivate talent and aid staff retention. Overall this results in gaining competitive advantage and increasing market share. So what is this secret weapon in the fight to reward success effectively? It is a twenty-first century approach to incentives; strategic employment of sales performance management techniques, of which incentive compensation management software is a vital and compelling element.

## **New tools for managing variable pay**

Incentive compensation management or ICM is, in principle variable pay and it embraces all aspects of reward for pay performance programmes by automating the calculation of commission, bonus and reward. We will, however, see that its role far exceeds this limited and unjust definition. While employee reward schemes are not a new concept, many organisations in Europe today still rely on spreadsheets or bespoke systems to calculate commission. In principal, these tools are adequate, but in reality they lack the essential scalability and flexibility to support companies operating multiple goals and complex sales environments. Spreadsheets and/or bespoke systems are difficult to manage, time consuming and often prone to errors from either within the system or via the operator – as a rule of thumb the error rate for manual input is 6 to 7 per cent. Perhaps of greater significance is the high administration overhead associated with maintaining these systems, this is where companies can incur a cost for administering and tracking commission spend.

## **Problems with traditional spreadsheet approach**

In a world where top-performing executives are shrinking in number and the war to attract and retain talent persists, analysts such as Mercer now recognize incentive-driven organisations achieve real benefits, in fact it can make the difference between profit and loss. This point is underlined when a snapshot of figures from organisations using spreadsheet systems are examined. Analysts, for instance, estimate that companies overpay between 5 and 12 per cent of the annual compensation budget and that tracking and reporting compensation for a single employee can cost as much as £1,000 annually. In addition, an individual sales

person can spend on average, between one and four days per month shadow accounting or re-calculating compensation payments, some 5 per cent of their time.

But while spreadsheets, with their drawbacks, continue to be widely used, technology's role in accelerating productivity gains, has advanced dramatically, most notably, according to analysts Gartner, in the area of ICM. By 2008, Gartner forecast that more than 90 percent of enterprises will focus on using ICM systems with the initial drive to use calculation engines to improve accuracy and administration time. In Europe, the telco and hi-tech sectors are the biggest purchaser of third party ICM solutions, accounting for over 40 per cent of the market. An ICM application, such as Practique's web-based INCA software, typically provides up to 90 percent error reduction and 50 percent reduction in related IT and administration staffing.

### **Why is ICM overlooked?**

So, with the quest for efficiency and profit being what most companies aspire to, why is compensation management so overlooked? The most difficult hurdle for many organisations is to change the preconceived negative perception it generates. The challenge is also where in the organisation does ICM sit? Is it HR? finance? sales? operations? IT? Or all of these? Traditionally, there has been no clearly defined owner and this is because ICM stretches across all these disciplines. This lack of ownership does present a problem as it is difficult to drive change when no one area accepts responsibility, and consequently a shift in business attitudes is needed to see change through.

One of the benefits, however, which promotes stakeholder buy-in, on which both vendors and analysts agree, is that ICM is an application offering a high return on investment (ROI) - within a 12-month period. This is because it addresses the problem of cost overhead, operational complexity and the scope for human error. At the same time, it delivers improved process control, speed and flexibility for switching incentive schemes in response to performance results and market climate. Further, an ICM solution can be deployed in as little as six weeks and this can be for an unlimited number of licenses. In practice one of the most important aspects of any investment in compensation management would be a flexible, scalable infrastructure – the creation of a platform upon which many more far reaching changes could be executed that affect a deeper impact on the company.

### **View from the grassroots**

Taking a grassroots perspective, the software has shown dramatic improvements in staff sales behaviours. For example, STA Travel, the market leader in student and youth travel, was able to implement incentives quickly in order to take advantage of market changes. Prior to implementing ICM, its business centred predominantly on flight sales, but by using defined incentives to promote other areas of the business, STA Travel was able to improve its overall sales turnover. The productivity of sales advisors increased by 11 per cent in a 12-month period, but sales of travel insurance were up by 21 per cent, accommodation by 14 percent and tours by 6 percent. Employees are now able to track their individual sales against target via an online statement which eliminates the need for shadow accounting. Records identified a direct pattern

whereby 100 percent of all sales staff logged onto their ICM system 15 minutes prior to the start of their shift and straight after it ended.

This example demonstrates how the transparency between sales behaviours and motivational incentive pay can be used to great effect. However, moving up the executive chain, an ICM system allows for sales information to be accessed in real time rather than arrears, so forecasting, modelling and target setting can be made with greater accuracy. League tables of sales teams can be generated to display the top performers as well as the best selling product lines, demonstrating more adroitly where new incentives need to be placed. As ICM is scalable and flexible, new incentive targets can be introduced within hours allowing companies to take advantage of a change in the economic climate to gain competitive advantage.

### **Impact on executive pay**

Frontline sales will also have an impact on executive pay. At Cable & Wireless, implementing ICM meant a cut in operations of 37 percent and sales volume was driven up by 22 percent. If the overall business is increasing in profitability, then top executives implementing and driving this change will be rewarded accordingly. For the management team more widely, ICM systems offer a robust infrastructure on two levels – at an individual level there is transparency, i.e. an employee can ascertain their earnings and contribution. And on a corporate level, it provides compliance and security, visibility, audit, measurement and control.

Measurement and control are key points here, demonstrating true accountability, measuring business performance and that reward plans work. Today, more attention is focused on the compensation paid out to employees, as stakeholders wish to see more evidence that bonuses are paid fairly for performance, particularly to company directors. ICM has inherent capability to help companies because it offers the flexibility to ensure reward plans remain on track. In addition, with ICM, controls are in place to restrict access to avoid false claims and, more importantly, to ensure changes can be justified via a documented audit trail, especially in the light of regulations laid down by Sarbanes-Oxley. Overall, with ICM, management information is improved as there is a greater analytical capacity on all touch points, improving communication top down, bottom up. This automated streamlined process has the added benefit for HR that it is less administratively intensive.

### **A vital support system**

ICM software should be seen as a vital support mechanism introducing control, accuracy and end-to-end visibility of employee performance and compensation cost. This in turn will integrate with HR and payroll, making the functions these departments perform more automated, less administratively intensive and more accurate. In addition, individual online statements for staff with near real-time information are invaluable in shaping sales behaviours because they can directly understand how this can impact their earning potential and they have the power to influence it. In turn, the management team can access this information to implement new incentives to keep one step ahead of the competition.