



PRACTIQUE
A Merced Company

Whitepaper:

Incentive Compensation Management

– A Vital Cog in the Employee

Relationship Management Wheel

Prepared by Practique Associates Limited the leading specialist vendor of Incentive Compensation Management software in Europe.

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Practique Whitepaper

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Executive Summary

While most people agree that knowing your customers and providing your customers with a more tailored and less-wasteful service is of increasing importance, companies should look to get their own house in order first. If they don't, surely any investment in CRM applications is a waste of money?

At first sight there may not seem to be much connection between incentive compensation (ICM) management and CRM but as we know CRM is much more than its obvious technology aspect and is very dependent on cultural issues and change management. ICM is one of those cross over applications which has a compelling aspect in a narrow tactical sense but when fully understood, should become part of an organisational strategy with the reward system explicitly linked to corporate strategy on an agile and market sensitive basis.

ICM embraces both CRM and employee relationship management enabling organisations to positively influence the attitude of employees responsible for the attainment of customer and profit targets by implementing incentive and reward schemes targeted at teams and individuals according to their job function. An appropriately incentivised and rewarded workforce creates a cohesive and collaborative work culture, which in turn motivates individuals to gain and retain customers in line with corporate revenue and profit targets.

Technology enabled selling tools are now being combined with a range of self-service style applications which span complete workforce management from the hiring and retention of employees, career development, appraisal management, resource and benefits. But incentive compensation has, until now, been the last process to be automated due to its highly complex nature and the fact that integration with ERP, HR/Payroll and CRM applications demands scalable and open architecture.

What is Incentive Compensation Management?

ICM is an application area that sits within the wider space of "Employee Relationship Management" (ERM). As such it impacts both human resource management and customer management arenas.

Incentive compensation is a process that creates performance reward schemes for staff in return for achieving company targets. One of the most tangible and effective ways to compensate employees is to remunerate based on performance, introducing some form of variable element to pay structures.

Many, if not most, incentive schemes are relatively crude devices that attempt to drive sales performance. That this is, in principal, an effective mechanism is not in doubt and front line sales people will respond positively where fairly clear causalities are involved. The problems arise when targets or objectives and reward schemes need to support a more complex model. For example, service or supply side personnel are an essential part of the value chain in meeting customer

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expectations but their behaviour as well as their performance may need to be influenced by the organisation. The reward scheme for this might need to be quite sophisticated in terms of its construction around business objective alignment and at the same time recognise that different individuals will wish for and respond to different sorts of reward. For some employees it might be directly fiscal and for others it could be more inclined to lifestyle benefits such as time off or retraining.

Part of the solution lies in improved levels of system support and greater levels of integration with transaction and payroll systems. When combined with an innovative and results driven employee relationship strategy, the right software solution can not only deliver significant cost savings and efficiency improvements, it can directly impact the bottom line, increasing workforce productivity and overall profitability.

Most European companies will be unable to execute an effective enterprise wide incentive and reward scheme since virtually all mechanisms are substandard and do not react to changing requirements.

The primary reason for this is that most systems are home grown i.e. spreadsheet or bespoke database applications with no flexibility. Furthermore, they are difficult to manage and in many cases prone to error from either within the system or via the operator. This background means that imaginative and effective deployment of incentive management is virtually stymied because of the administrative burden. In addition, the opacity of the systems in use leads to distrust and a complete lack of real time information to both management and staff.

The Right Solution

Expert ICM software will increasingly be seen as the company glue providing that will not only reduce administration overheads, but will help managers measure performance and keep staff happy in the knowledge that they are being rewarded accurately for their efforts. ICM systems will have several very important impacts:

- They support, in quite a crucial way, the cultural approach that a company takes to its customer and employee relationship management strategy. This is of substantial importance since people and process issues are fail points in CRM.
- When compared with homegrown spreadsheet or bespoke systems ICM solutions are capable of showing very rapid ROI, well within the first year and with considerable project lifetime cost savings. The ROI is entirely defensible on only the tactical application of the package and therefore on cost savings. This leaves aside the strategic gains, which may be substantial but will be more organisation specific.

Hewson Group considers that ICM systems fall into the “no brainer” category. When compared with homegrown spreadsheet or bespoke systems most ICM packages are capable of showing very rapid

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Available solutions

Here in Europe the market is maturing more slowly due to awareness issues and also the relative weakness of the supply side. A number of US players are starting to appear here which will be beneficial in terms of increasing awareness and offering choice but Hewson Group regard INCA from Practique Associates as the prime mover in the European market not only because it is a particularly attractive technical solution but because Practique are an example of the importance of execution ability. This is a more complex area than most people think and it is highly desirable that the vendor or consultancy should know more about the project than the end user.

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About Practique

Practique is the author of INCA an Incentive Management solution. This web-based software automates sales commission and bonus and is responsible for managing the commission of over 120,000 employees and channel partners across Europe every day.

Practique, a UK based organisation, is the leading specialist vendor of Incentive Compensation Management software in Europe. INCA is implemented in many forward thinking companies including O₂ in the UK and Germany, The Carphone Warehouse, Mazda, BT, Cable & Wireless, STA Travel and The Royal Bank of Scotland.

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