



PRACTIQUE
A Merced Company

Whitepaper:

Incentive Compensation Management – Expert ICM Vs Homegrown.

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

“Incentive compensation is the single most effective lever for aligning sales performance with business goals. Both the base line business goals and the company’s values are demonstrated to its employees through the variable compensation system”. *Aberdeen Group*

Incentive compensation management (ICM) is the process of creating and deploying performance reward schemes for staff in return for achieving company targets. ICM systems automate the process of managing employees/partners, pay plans, targets (or quotas) and adjustments.

Traditionally, compensation management has been viewed as a discreet, back-office function with incentive schemes directed at individuals or teams responsible for sales revenue targets. Today, the compensation strategy need to embrace multiple sales, service and e-based channels, extending to all employees involved in the attainment of growth targets.

Variable reward options

The modern workforce expects performance-related bonuses and accelerated commission, as well as reward based on “softer” measures such as personal objectives (MBO), customer satisfaction; sales lead conversion rates etc.

One of the most tangible and effective ways to compensate employees is to remunerate based on performance, introducing some form of variable element to the pay structure. But it is not just about money! Stock options, air miles and holiday entitlement represent a few examples of other types of incentive being offered to employees in the modern marketplace.

Enterprise Wide Focus

This growing focus on employee relationship management, efficiency and productivity improvements put Sales, Finance and HR executives under increasing pressure to take a more scientific approach to incentive compensation. The ability to predict the impact of compensation payments on the bottom line prior to implementation plus the need to track performance month-on-month is has become a business imperative.

The trouble is, most companies are still largely reliant on manually intensive procedures supported by spreadsheets or homegrown database solutions. Whilst such systems will ultimately produce the right results, they lack the scalability and essential flexibility required to handle sophisticated plans. Incentive administration becomes increasingly inefficient as the number of employees on plans increases.

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INCA is an Incentive Compensation Management system that automates the entire process of defining, administering and analysing any form of incentive structure. The systems inherent flexibility, powerful modelling and analytical capability give management teams the essential tools to implement and measure incentive schemes across the enterprise.

INCA reduces operational cost overheads, streamlines the administration effort and delivers control, visibility and measurement of compensation cost.

Expert ICM vs. homegrown systems

Organisations managing in excess of 200 employees and/or channel partners on variable pay programmes will benefit significantly from utilising an expert system like INCA. The systems inherent flexibility, comprehensive modelling and analytical capability not only introduce measurable cost savings and efficiency improvements; it provides management with the framework to align workforce productivity with overall business targets and objectives.

Disadvantages of homegrown solutions

- Little or low levels of system integration result in costly administration overhead as time is spent sourcing, cleansing transaction data from multiple sources, running import routines and macros, manual checks etc.
- As the number of individuals on plans grows, traditional methods such as spreadsheets and in-house systems struggle to support sophisticated and variable pay models.
- Workforce productivity is often diluted as administrators struggle to distribute paper-based statements and react to end-of-pay period queries from the workforce. Employees eager to understand commission statements with insufficient information often waste valuable time producing personal spreadsheets to validate final pay figures.
- Lack of visibility of employees and plans across multiple channels makes tracking performance increasingly difficult and management ability to adjust or implement revised plans on meaningful information a hazardous task.
- The absence of a single repository of employee and compensation data impedes management ability to measure the overall cost of incentive compensation, the impact on company profitability and overall effectiveness of the incentive strategy on workforce productivity.

By way of comparison, an expert system like INCA will deliver significant and immediate benefits at a tactical (operational) level and strategic (executive decision making) level. For example:

- Sales management has improved visibility of employee performance. The availability of real time, on-line management information provides invaluable comparisons of individual, team and channel performance and commission cost.
- CEO's and Finance Managers have greater control over the incentive management strategy by implementing plans appropriate to employee type, thus aligning personal productivity with overall business targets and objectives.
- Predictive modelling capability permits creative plan definition and assists managers in making fact based decisions based on forecast commission expense.
- Visibility of performance data in an accessible and easy to understand format instils employee confidence and trust in data accuracy.

The spreadsheet approach

Spreadsheets represent the way that most companies have implemented compensation calculation and management in the past. This is costly and inefficient given the resource required to administer the system and the risk of human error involved.

The limitations of calculating commissions using spreadsheets are fairly obvious. Whilst they do the job, they fail to deliver executive visibility, the analysis and the integration required. We have explored some of these issues in more detail:

- Battling with numerous spreadsheets, maintaining macros, creating and modifying import and export routines, producing paper based commission statements and reports is an onerous, time consuming and costly exercise.
- This method is also prone to inaccuracy, relying heavily on manual data input and adjustments. The cost of errors (overpayment and underpayments) can be significant in financial terms and can damage employee trust and motivation.
- Tracking and administering adjustments is equally time-consuming. Spreadsheet applications don't provide audit trail capability which makes tracking changes and reporting on change virtually impossible.
- Spreadsheets offer little benefit to the front-office teams beyond paper-based statements.

Employees whose remuneration is based on a base salary plus commission manage their time and effort according to results. More often-than-not valuable selling time is lost whilst individuals assume a shadow accounting role to check end-of-month statements and query results.

Are bespoke solutions a better option?

To a certain extent bespoke systems overcome some of the issues inherent with the spreadsheet method. However, they are expensive to maintain (often introducing high in-house or external development resource costs). Similarly, hard coded systems lack flexibility, which means introducing any form of change to the software takes time and incurs further unnecessary cost.

Hard coded systems lack flexibility and often need extensive code enhancements to support strategy changes. A further drawback is the time taken to implement even a minor change.

External contractors often require 4-6 week lead times before undertaking a project modifications which can have a significant impact on your ability to respond to an end-of-month modification.

A bespoke solution is capable of providing exact functionality to support the commissions and incentives strategy. They can also be integrated according to need. The primary disadvantage of this approach is the maintenance overhead associated with change.

Finding the right solution

Companies relying on homegrown solutions struggle 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 systems lack flexibility, control and visibility. This background means that imaginative and effective deployment of incentive compensation programmes 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.

Increasingly, ICM will provide the central constituent of this glue 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.

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

INCA – Expert ICM

INCA eliminates the issues associated with home-grown solutions providing the depth and breadth of functionality to support the entire ICM process. Functionality include:

- Seamless integration with transaction and payroll systems, automating the complex process of multiple pay plan creation and compensation calculation
- Quick and easy set-up i.e. up-and-running in days, not months
- Supports the definition of virtually any type of compensation structure to target business objectives
- Provides sophisticated analysis of payments, target achievement and transactions at all levels within the organisation hierarchy
- Presents payment and achievement results to the workforce in an accessible and meaningful manner
- Easy to administer yet powerful and totally flexible to support virtually any variable pay plan
- Supports unlimited employees and plans
- Automatically tracks and reports performance and costs within the organisational hierarchy

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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