Building the Fundamentals: Why Bold Sales Incentive Schemes Need Efficient Administration

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It appears that few medical products companies are very satisfied with the administration of their incentive schemes for salespeople.

This finding from the 2015 Incentives Practices Research study for the medical products industry, carried out recently by ZS Associates, should sound a warning. Only by refining administration can companies be confident in smoothly implementing the bold incentive schemes which are gaining in popularity as a means of maintaining growth and retaining the services of key salespeople, according to the study's findings. A flexible form of administration also enables negative issues to be identified, analyzed and resolved, and any necessary scheme changes to be incorporated without undue disruption.

Selecting the most appropriate incentive compensation management (ICM) system will therefore provide an indispensable foundation upon which the broader sales strategy can flourish.

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Supporting Growth

To appreciate why it is so important that medical products companies get their incentive administration right, it is key to understand other key findings of the ZS study.

The commercial environment has become more buoyant for medical products companies, with those surveyed reporting a median revenue increase of 7.5 percent from the previous year. As they start to feel more confident, and the years of caution following the 2007-2008 financial crisis fade from memory, companies are using incentive plans more aggressively to engage the sales force and thereby perpetuate this growth trend.

We also have observed that our clients have become increasingly concerned about retention, as rivals attempt to poach good salespeople in order to take advantage of the growth opportunities. The cost of turnover is high. Replacing each salesperson, whether through hiring and training a replacement or through lost revenue while the role is vacant, could amount to hundreds of thousands of dollars.

To retain their excellent performers and sustain their commitment, companies are therefore paying their top 10 percent an average multiple of 2.3 times the total amount that can be paid for a bonus this year, up from 1.9 times the previous year. A quarter of those companies that participated in the survey reported that they now pay as much as three times the target incentive to their top performers. A comfortable majority of companies do not impose any cap on payouts—almost two out of three companies (65 percent), for example, impose no cap on payouts for territory or account managers. Medical products companies seem to be saying: You don't need to go anywhere else to fulfill your ambitions, you have the opportunity to earn what you want right here.

But it is by no means just the cream of the salesforce that is benefitting from a renewed focus on salesperson retention. Managers increasingly are rewarded for the average performance of their direct reports. In this way, managers are incentivized not just to focus on one or two stars, but also to ensure consistent performance from the rank and file within the sales team.

Companies are feeling so sufficiently confident about their prospects that they are setting more aggressive quotas. A growing number of firms now set quotas that exceed national sales objectives, and payouts are triggered at a higher percentage of the quota than in the previous year. Salespeople are being encouraged to stretch themselves to achieve what are now higher rewards, and by doing so, secure their company's continued growth.

Inefficient Administration

However, our survey also revealed a potential obstacle to the smooth implementation of this incentives strategy. A significant number of companies in this year's survey sample may not have the robust and flexible administration necessary to reward salespeople appropriately and accommodate any future changes to the scheme.

The survey shows a sense of dissatisfaction within companies about the administration of their incentive schemes. When asked to respond, on a scale of one to seven, how satisfied they are with current sales incentives administration systems, tools and processes, just 16 percent selected six or seven. Moreover, to a question that asked about the biggest incentive compensation issues with which the organization struggles, the most popular answer was "administration."

A reliance on spreadsheets and databases coincides with this increasing concern with administration. The majority of companies (60 percent) use this method of administration, with only just over a quarter of them using either purchased or custom-built software.

Other survey results suggest that these methods may be hindering progress and raising costs. A significant proportion of companies don't have a high level of confidence in their ability to implement new plan designs with their current systems. Moreover, this year's sample of companies is allocating more full-time equivalent (FTE) employees to what is more labor-intensive administration. The median number of FTEs has risen from 1.5 in those companies surveyed last year (a sample that also reported lower use of spreadsheets for incentives administration) to two in this year's sample.

Finding the Right Solution

The use of manual administration appears to be creating issues that are vexing some companies. They need to respond by identifying appropriate ICM solutions, and make their incentive programs that much more effective.

Such a process takes time and should not be entered into lightly. If they opt to acquire such solutions, companies need to enter into a detailed discussion with prospective vendors about the specific characteristics of their incentive scheme and their requirements. Neither the purchaser nor the vendor should make assumptions that the relevant software tools will be equipped to administer the plan straight out of the box.

Companies also should be mindful of the total cost of acquisition and operation, and not make the mistake of thinking the total outlay will simply involve the up-front expense of purchasing the software license. Additional support from the software provider to adjust the setup of the tools often will be necessary as needs evolve. Potential internal costs also should be borne in mind. It is important, for example, to understand how long it will take to set up and customize the software solution so that it is running smoothly, and the resources (both human and financial) that need to be allocated to assist in this process. This is no quick-fire exercise.

Because data availability, accuracy and administration rank among the top sales compensation struggles for organizations, many companies are not only purchasing software, but have begun to outsource administration. Research has shown that companies that outsource sales compensation administration are close to 30 percent more satisfied than those that handle processing and reporting internally.

For companies that decide to outsource, it is important to find an external partner you can rely on and trust completely. Therefore, the selection process should focus more on their characteristics and experience than on the features of the software.

Going down this external route has real advantages. First, it is possible to enforce accountability and include precise metrics by means of a written agreement, with incentives to deliver on time and penalties for delays. The process is therefore more formalized, transparent and structured than it would be if handled internally, with less potential for error as a consequence.

Second, incentives administration will be a core business for external partners. They inevitably will have the experience of dealing with common issues, and will be in a position to design process proactively to avoid typical pitfalls.

Most importantly, outsourcing to an external party allows those inside the company to focus their time and efforts on revenue generation and growth, rather than administration.

Despite the clear benefits, some companies still want to handle administration internally. This may be solely for reasons of historical continuity or resistance to change. Perhaps, also, some companies which are already administering ICM solutions internally feel they do not want to waste the previous investment by selecting an external partner instead.

Nevertheless, companies should be aware that internal administration, even with cutting-edge software, also involves some risks. If the administration know-how resides, for example, in one person only, then the company clearly is vulnerable to that person's departure. It is essential, therefore, that this knowledge is spread as widely as possible and processes always are carefully documented.

Moreover, if new problems arise with the implementation of the incentive management software, it could be that none of the company's own employees have the expertise or experience to solve them. It is not always possible either to rely on the provider from whom the software was initially purchased.

A Commercial Imperative

The ZS Incentives Practice Research study revealed medtech companies' frustrations with their current sales compensation plan administration. The ramifications should not be underestimated.

Substandard administration threatens to compromise sound strategies, and may therefore hand competitors a major commercial advantage. It also can lead to inadequate reporting and analytics, hindering opportunities to track progress and identify emerging trends; to an inability to provide timely, accurate payments to the sales force, inevitably creating disenchantment among employees; and to costly and inefficient manual operations.

Whichever way companies choose to improve administration, whether through internal management or by outsourcing responsibility to an external partner, the selected system must always support, not undermine, their ultimate goals of enabling growth through efficient and flexible systems. ❖

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The Top Four Tips for Finding the Right Sales Incentives Administration Solution

1 Take the time to fully understand your program needs. Before you begin evaluating solution providers, meet with internal teams to ensure you fully understand and can communicate your organization's needs. This will allow prospective vendors to easily address how the specific characteristics of their solutions will meet your specific needs.

2 Don't assume that the software will work "right out of the box." Be sure to build in extra time for your chosen provider to customize and implement your new solution. Even cutting-edge software may take some manual configuration to ensure things will run smoothly.

3 Be mindful of the total cost of acquisition and operation. Set aside money for additional support that might be necessary either from the solution provider, your internal teams or other external providers as the needs of your team evolve.

4 Find a partner you can rely on. Most importantly, incentive administration should be the core business for the external partner you choose. That partner will bring both expertise and experience in dealing with common issues and help you design your plan while avoiding common pitfalls.

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