



SOCIETY FOR HUMAN
RESOURCE MANAGEMENT

Outsourcing Can Bring Relief for Sales-Comp Headaches

Lessons from pharma companies on managing reps' incentive pay

By Chad Albrecht and Stephen Redden

An effective incentive compensation (IC) plan for sales representatives is a cornerstone of profitable growth. But the need to manage the enormous amount of data involved and to keep up with changes in the plan from year to year, or even quarter to quarter, can hamper even the most well-designed program.

Yet these difficulties are not insurmountable. The experience of the data-driven, highly regulated pharmaceutical industry—which has outsourced IC programs to a greater degree than most other businesses—shows that companies with even the most difficult data management issues can have well-run IC programs that are cost-effective and consistent with industry best practices.

Currently, about 90 percent of companies manage their own sales-compensation plans in-house with spreadsheets or custom software. This can be an onerous undertaking, as most in-house IC teams are small, overworked and spend their time maintaining those spreadsheets and legacy software. This is unproductive and not particularly accurate: According to research firm Gartner Inc., manual processes result in bonus and commission overpayments of up to 8 percent.

Errors in payout calculations lead to sales reps' engaging in "shadow accounting," tracking what they *should* be earning and, thus, distracting them from selling.

Outsourcing IC administration has not been a viable option in the past, but today the IC function is far more centralized and better documented, while advances in technology over the past decade allow processing to be done in a structured fashion, rather than ad-hoc. Consequently, managed service providers have developed strong IC administration capabilities.

Pharma's Prescription for IC Headaches

The pharmaceutical industry has shown the viability of outsourced IC solutions. About 90 percent of big pharma companies in the U.S. outsource some or all of their IC program management, and the amount of outsourced IC administration continues to grow.

One large global pharma company that felt the weight of handling data and regulatory challenges eventually decided to outsource IC plan management for its 4,000 sales reps and managers. Originally, the company managed its IC programs in-house using a third-party IC management platform. As business needs changed

through the years the company modified the platform ad-hoc, resulting in an unwieldy system prone to payout errors and requiring a large team of contractors to supplement the in-house team to maintain and run it.

As part of a sales organization restructuring, the company partnered with a managed service provider to define, design and implement a better sales-comp processing system. The partner implemented and tested the new platform for about six months.

The result? The company cut its error rate by more than 50 percent, and IC processing turnaround times dropped 70 percent. The platform could adapt quickly to support changes in the sales force structure, size and compensation plan design. With the pharma company able to deliver sales IC correctly, the sales operations team members were able to spend more time improving overall IC program effectiveness, adding value for their internal customers.

Step-by-Step Approach

Although outsourcing such a deeply entrenched corporate function is relatively new and may seem untested, companies can alleviate their worries through a measured, step-by-step approach to outsourcing their

IC programs and addressing issues with potential outsourcing partners. The following process can help companies determine the best route to success.

- **Assess the current IC management system and process.** This involves a detailed evaluation of sales force incentive compensation design, administration and governance.
- **Agree on a desired future state of IC management.** Examine best practices at other companies, and determine how the sales compensation program can better meet business needs. Identify the gaps between the current and desired states, and prioritize areas that will have the biggest impact, based on criteria such as effectiveness, accuracy, timeliness and cost.
- **Evaluate the capabilities of both internal systems and external managed service providers to address those gaps.** Decide what combination of internal and vendor-provided services works best to address the gaps. For example, some companies choose to outsource IC administration but retain sales compensation design as an internal function. Other companies outsource the bulk of IC program management, including design and admin-

istration. And some decide to keep the entire process in-house.

When outsourcing all or part of the IC program, work closely with the managed service provider to define the respective responsibilities and expectations, often governed by a service-level agreement.

- **Implement this approach** while recognizing that it will need to be executed in phases over several months.

Following in Pharma's Footsteps

Data-heavy industries with large IC teams that have to deal with ongoing changes in compensation plans—high-tech and financial services come to mind—are prime candidates to follow in pharma's footsteps. Along with the data and change-management challenges, both high-tech and financial services feature large sales forces selling a variety of products and services to many types of customers in unique sales territories.

We expect that in five years at least 20 percent of all U.S.-based sales reps will have some part of their IC administration outsourced and by 2023 fully one-third of all U.S.-based reps will be in this position.

Internal management versus outsourcing of compensation processing is not an

either/or decision. It is a flexible relationship, a continuum between the two. Companies can change the mix as needed over time, and those that are able to embrace this flexibility can improve efficiency and effectiveness.

As seen in the pharmaceutical industry, outsourcing sales compensation management can be a faster and smarter way to operate—and a cure for IC headaches.



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