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SALES & MARKETING INSIGHTS

Four Steps for Building Incentive Compensation to Support New Pharmaceutical Sales Models

Stephen Redden and Steve Marley

Incentive compensation is motivational fuel for any sales model—and that includes pharmaceutical sales models that improve local targeting and resource allocation while addressing customer needs.

One sales model, which we call "differential resourcing," is becoming the dominant approach for the pharmaceutical industry, but can present challenges to building an effective incentive compensation plan.

Differential resourcing has become popular because it allocates resources according to local conditions. This also means incentive compensation has to be flexible and locally oriented as well. Though it might *appear* daunting, building an incentive compensation plan to support differential resourcing is far simpler than it appears upon first glance.

Table of Contents

Introduction

As new selling models are revolutionizing pharmaceutical sales, companies need to transform their incentive compensation plans for these new models to reach full potential.

Take a pharmaceutical company that implemented a sales model that deployed sales resources based on local market conditions. To management, the model looked like an obvious winner—geographic footprints would remain stable, reps would be spending more time with their most important customers, and doctors wouldn't be subjected to unnecessary product pitches.

As a way to improve profitability, the model—which is commonly known as "differential resourcing"—could help jump-start sales of mature products and improve the launch of new ones, and do so while actually minimizing personnel costs.

One major factor in ensuring that differential resourcing succeeded would be making critical changes in the company's incentive compensation plan. While everybody at the company was excited about differential resourcing, "Dave Pearson," who built and maintained the company's incentive compensation plans, wasn't sure how to proceed. It was important that the company build an appropriate incentive compensation plan, as it would affect many stakeholders far beyond Dave's immediate circle.

Before differential resourcing, building incentive compensation plans had been relatively straightforward. Reps in different territories carried the same product, and Dave could easily identify the top-performing reps for the firm's asthma treatment, for example. With differential resourcing, reps in one sales territory would only sell the asthma treatment, while reps in another would carry the asthma treatment *and* two other products. If Dave couldn't design and model an incentive compensation plan that matched the sales model, differential resourcing wouldn't be as effective as the company envisioned.

It's likely that you've faced a similar situation. Numerous companies are embracing differential resourcing, which matches sales resources to local conditions. An incentive compensation plan needs to be simple in order to be effective, but the challenge with differential resourcing may seem perplexing for incentive compensation managers: *How can I build a simple, effective incentive compensation plan when everybody seems to be carrying different products in different places with different sales emphasis for each?*

Although it may seem challenging, reconciling differential resourcing and effective incentive compensation is not as difficult as it first appears. In fact, building an incentive compensation plan under differential resourcing is not noticeably more complex than building a traditional plan.

In this paper, we will describe four ways to help design a plan that is effective, straightforward and helps companies generate all of differential resourcing's many benefits.

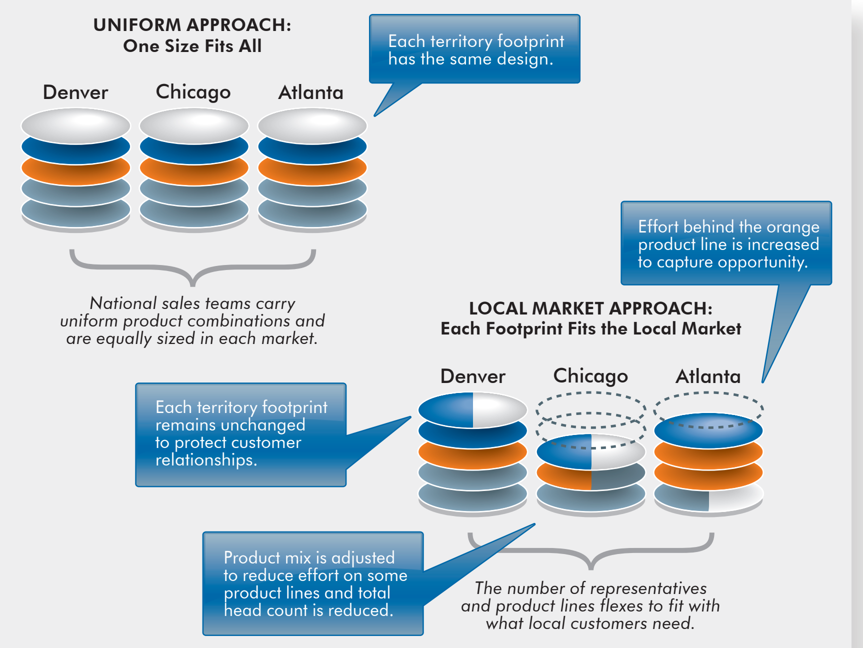
We'll show these four steps through Dave's perspective, as he builds an incentive program for differential resourcing and helps deliver better results than ever.

What Is Differential Resourcing, Exactly?

As an underlying premise, differential resourcing, which has different names at different companies, aims to reshape the sales model to meet local market conditions. Differential resourcing establishes a territory footprint that stays relatively stable over time, in order to maintain representatives' customer relationships. It replaces the idea of national sales teams with sales forces that are flexible, dynamic and focused on local markets.

Unlike a uniform approach, a differential resourcing plan can vary the number of representatives, the products they carry and the emphasis on each product in any given territory based on the actual business opportunity in the territory (see Figure 1).

Figure 1. Differential resourcing establishes territory footprints that stay the same over time. Product coverage within territories changes as customer needs evolve.



Each color represents a product mix of two or three products.

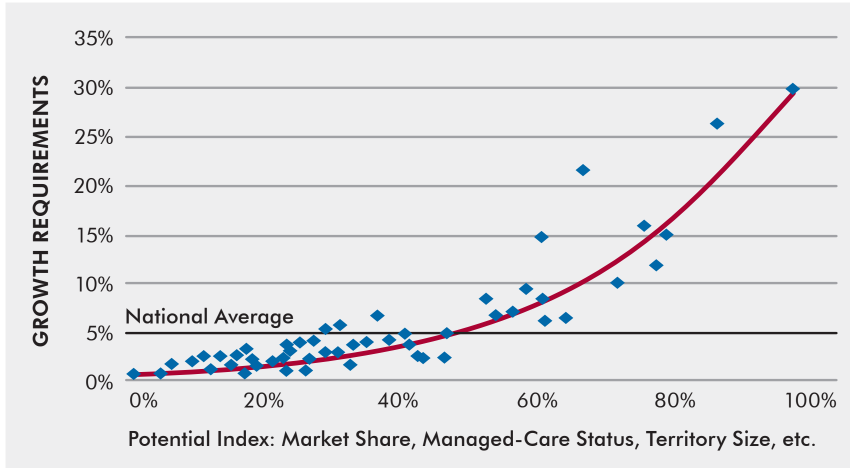
Those terms present a challenge to incentive compensation managers like Dave, who must build plans that provide appropriate incentives for their company's reps, no matter where the reps work or what products they carry. However, following a set of four steps can make building an incentive compensation plan for differential resourcing much easier than Dave imagined.

Four Steps Toward Effective Incentive Compensation in Differential Resourcing

1. Make your incentive plan goal based.

Since differential resourcing models require that sales force deployments support local market conditions, an incentive plan based on goals generally works best: It allows companies to adjust growth expectations to reflect local market conditions, such as different managed-care situations and physician access. To ensure an equal earning opportunity for each rep, companies need to test goals before releasing them to the field—by doing so, they can ensure that the incentive compensation program is paying for rep performance rather than territory conditions (see Figure 2).

Figure 2. Goal testing ensures the incentive compensation program is paying for rep performance rather than circumstances beyond reps' control.



In Dave's case, sales management told him the company would retain its territory-based alignment and use a goal-based incentive plan. That helped immensely, since the company already had goal-based incentive plans, like many pharmaceutical operations.[1]

That was the first step. Initially, the next step also appeared daunting: Even with proper goals, how could Dave be sure that the incentive compensation plan rewarded reps for helping the company meet its overall sales objectives? But again, the answer did not require an overhaul of the current system.

2. Use variable compensation weighting across footprints.

In differential resourcing, a single rep may carry different products to different doctors within the same geographic footprint, or he or she may carry the same products as another rep but with a different priority. That means reps need to allocate their efforts on the right products—and compensation has to motivate them to do so.

So depending on local selling needs, incentive weights need to vary and match the desired effort for each product or channel in each geography.

As with goal-based incentive planning, most companies are already doing this—in differential resourcing, the difference is that it's done at the rep level. For example, reps in Chicago can carry the same basket of products as reps in Denver; different managed-care environments in each city may result in different product emphasis.

[1] According to the ZS 2011 Incentive Practices Research (IPR) study, 74% of pharmaceutical companies surveyed used goal-based incentive compensation.

So Dave contacted his colleagues in sales operations and collected specific product responsibilities from call plans. That was a good starting point to establish variable incentive weights for each rep.

The next step did not appear as straightforward—how would Dave keep payouts fair when each rep would have individualized goals and compensation weights?

3. Level the playing field.

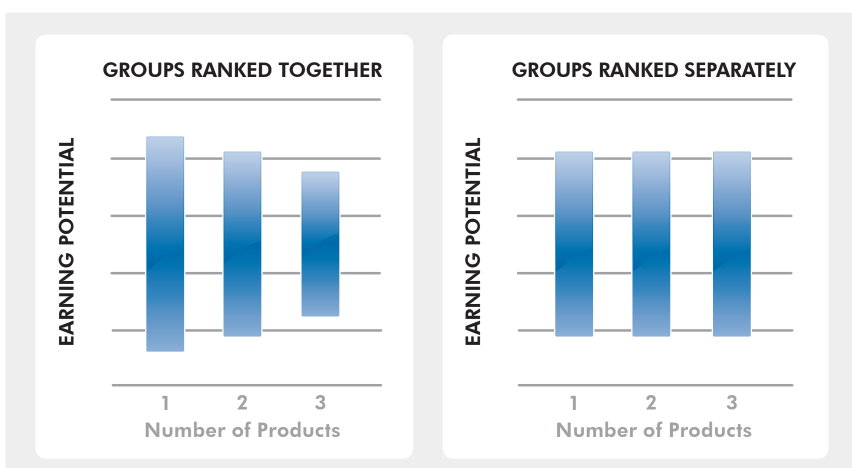
Giving all reps an equal shot at earnings and recognition is essential in a good compensation plan. In differential resourcing, one rep may be promoting a blockbuster product, another may be promoting several products with low potential, while a third might be promoting the blockbuster and a product with low potential.

Therefore, no matter what products reps carry, they need a level playing field so they will each maximize his or her effort.

Two excellent techniques to minimize real or perceived inequality in earning potential are normalizing product performance against national performance and, when comparisons are made (for example, in annual recognition programs), creating appropriate rank groups so reps are compared against others in similar situations (see Figure 3).

Dave knew it was essential to create equal earnings opportunity and create a level playing field for his company's President's Club, its annual recognition program, which he was able to do with the help of an outside consultant.

Figure 3. Ranking groups based on the number of products carried ensures reps have an equal opportunity to earn recognition.



Rather than rank people by team, as was done previously for the President's Club, Dave created rank groups based on the number of products each rep promoted. When creating these rank groups, Dave knew that the "spread" of performance would be greater for reps carrying one product than it would be for reps carrying multiple products. He did not want the winners to be the highest performers who only promoted one product; ranking groups based on number of products ensured all reps would have an equal opportunity to earn recognition, which was critical to reps' motivation.

With the compensation plans for the reps in place, Dave finally had to consider the compensation plans for sales managers.

4. Ensure sales managers are properly motivated as well.

Differential resourcing often—though not always—gives sales managers a say in how reps are deployed locally, so manager compensation needs to be adjusted to reflect any new responsibilities resulting from differential resourcing.

In some cases, the company's head office will dictate each rep's product emphasis; in others, sales managers can shift the effort being placed on each product, refine the goals for each product or help make head-count decisions within specific territory footprints.

Manager compensation needs to be aligned to the behaviors expected of them, whether or not they are involved in local decision-making. Rather than rely upon common manager plan designs, such as paying on rolled-up territory goals or on an average of territory performance, manager compensation plans in differential resourcing should motivate behavior that benefits both organizations and managers.

So before he could design managers' compensation plans, Dave needed to know the responsibilities for field sales managers, and figure out how the compensation plan would direct and reward behavior in differential resourcing.

For example, at Dave's company the managers previously had the option to shift goals among various footprints to align with their sales teams' deployment. Now, in addition to the ability to shift goals, the managers were also allowed to modify call plan weights. With this new power, Dave set manager-level goals that the managers could not adjust; this would prevent managers from decreasing effort significantly on mature or low-growth products to maximize their earnings.

To ensure sales managers maximized their efforts as they learned good approaches to local decision-making, for the first six months of differential resourcing, Dave allocated some of their compensation to a management-by-objective (MBO) plan. The MBOs would reward managers whose differential resourcing decisions benefited the company. The company planned to shift managers back to primarily goal-based incentive compensation after differential resourcing became established within the company.

What Happened in the End

Six months after the differential resourcing model went into effect, the results were clear: Not only had differential resourcing cut costs, but reps' performance and job satisfaction had improved. Though initially hesitant, once reps understood the differential resourcing plan, they were happy that their assigned duties actually matched the situation in the field and their compensation had been changed to match.

Best of all for Dave and his managers, the incentive compensation plan had been relatively simple to implement and maintain. Many of the necessary steps for the new plan, such as basing incentive compensation on goals, were already in place prior to differential resourcing. The other steps were not as difficult as first appeared. Dave felt both triumph for the success of the incentive compensation plan and a sense of relief at how easy it had been to implement.

Conclusion

Today, half of the 40 largest pharmaceutical companies in the United States use differential resourcing in one form or another. Because models that have fixed compensation weights and rigid goals pose an inherent conflict to plans that are built around differential resourcing, the compensation design needs to be as flexible as the differential resourcing sales model it supports. As Dave discovered, this flexibility can be built into compensation plans.

What matters most with compensation in differential resourcing is no different than for any other sales model in any industry: getting your sales force and sales management properly motivated and engaging in behavior that maximizes the return on your sales force investment. With differential resourcing, that means a new approach to incentive compensation, but it does not mean a complete overhaul.

Pharmaceutical companies that follow the steps listed above are more likely to succeed in differential resourcing—and, as with Dave's plan, have a more motivated, more satisfied sales force because compensation is more directly aligned with conditions in their local market.

About the Authors

Stephen Redden is a Principal at ZS Associates in Evanston, Ill. As the Managing Principal of ZS's Incentive Compensation practice, Stephen has helped develop innovative compensation plan designs and goal-setting approaches that are in widespread use today. In addition, Stephen has led numerous outsourcing engagements and has helped design processes for companies to internalize or outsource their incentive compensation operations. He has a B.E.Sc. in biochemical engineering from the University of Western Ontario, an M.Eng. in environmental engineering from Cornell University and an M.B.A. from the Rotman School of Management at the University of Toronto.

Steve Marley is an Associate Principal with ZS in Evanston, Ill. Steve is part of the firm's Incentive Compensation practice; he has worked on IC design, quota setting and operations projects in various industries, including health care, publishing and retail. He has also helped clients on issues involving sales force alignment, size and structure, and personnel placement. Steve has a B.A. in psychology from the University of Waterloo and an M.B.A. from the Ivey School of Business at the University of Western Ontario.

About ZS Associates

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For more information on ZS Associates, call +1 847.492.3602 or visit www.zsassociates.com.

ZS Associates
www.zsassociates.com
inquiry@zsassociates.com
+1 847.492.3602