7 DEADLY SINS OF MANAGING SALES COMPENSATION IN SPREADSHEETS

AND HOW TO ATONE FOR THEM

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Introduction

There are few things more critical to a company's top and bottom line results than sales compensation. After all, sales are the lifeblood of any business and sales compensation is the primary vehicle to inspire motivation and track and reward sales success.

It also happens to be one of the biggest cost centers in most organizations. In fact, in the U.S. alone, companies spend more than $800 billion on sales compensation annually – three times more than is spent on advertising and $100 billion more than the government spends on national defense.

Yet even as businesses turn to enterprise systems to streamline key processes and achieve better results, when it comes to managing variable compensation, most continue to rely heavily on time-consuming manual-based spreadsheets. In doing so, CFOs are exposing their businesses to the seven deadly risks of incentive compensation:

1. Risk of Non-Compliance

It is on the shoulders of the CFO to ensure that a company has strong internal controls. Given that in most businesses the majority of the cost structure is in salaries, variable compensation is an area demanding close attention. If finance doesn't have a good enough handle on sales compensation, there is a significant risk of having a material control weakness.

Ask yourself: What damage could non-compliance cause my business in cost and reputation? And how do I even know what impact sales compensation is having on my compliance?

2. High Error Rates

Spreadsheet-based processes are notoriously error prone. According to Gartner, managing compensation through such manual processes is subject to an error rate of anywhere between 3 to 8 percent. For a larger company, it might be even higher. Run those percentages against a one million dollar cost center with just ten sales reps, and it is easy to see how managing commissions on spreadsheets can end up significantly costing a company in both over and underpayments.

Ask yourself: What are errors in my current spreadsheet-based system costing my business right now? How would I even know if errors were occurring?

A company relying on manual processes to manage variable compensation can easily end up in hot water and out of favor with employees, auditors and investors

3. Poor Financial Forcasting

As noted above, spreadsheets are prone to errors. Not only is this an issue in the payment of commissions but in forecasting future commissions and how they play into the overall financial numbers. In the worst of cases, this can cause earnings-per-share projections to be materially off target which of course rebounds on the company's stock price and on the CFO's reputation.

The jeopardy here isn't just confined to bad quarters. A company can have a great quarter with most of its reps overachieving and end up with an enormous expense shortfall as a result, leading perhaps to a restatement. Even in those quarters where the sales team underachieves, a company might still have to pay out in excess of forecast because reps learned how to game the plan (which, when managed correctly can be a good thing, but that's a whole other discussion).

Ask yourself: What damage can mis-forecasting sales compensation cause my business? How could I re-calibrate my sales compensation forecasts to be more accurate?

4. Lack of Trust

When using spreadsheets to manage compensation, it is as easy to underpay a rep as it is to overpay. Even this perception creates mistrust between sales and finance, leading to time-wasting disputes that distract people across both organizations from their strategic missions.

Ask yourself: How much time is wasted each month by reps and admins on disputes? And how does a lack of trust impact rep retention and motivation?

5. Inefficiency

In addition to being error-prone, spreadsheet-based processes are laborious, time-consuming and do not scale well. Hence, in order not to delay month end and quarter end close, far too many personnel hours have to go into updating the spreadsheets used to manage compensation – resources that can be better deployed elsewhere.

Ask yourself: How much faster and more efficient could commission processing and payment be if automated? What becomes possible for me if that time lost were invested back into my business?

> 88% of spreadsheets contain errors
>
> *– MarketWatch*

6. Lack of Visibility & Alignment

When compensation is managed via spreadsheets, reps lack real-time visibility into how they are doing compared to quota and how aligned they are to corporate goals. They can't even easily see how large their next commission check is going to be. If reps have to wait until several weeks after quarterly close to see that next check then it is usually too late to influence better, more strategic sales behaviors.

Ask yourself: If my reps could see their quota attainment or "estimate" how various deal changes could improve the profitability of a sale, how would that change their behavior and, in turn, my bottom line? If sales reps were motivated to drive not just revenues but profitability, as well, what would that do for my business?

7. Sub-Optimal Compensation Plans

Lack of visibility extends to the creation of compensation plans as well. Spreadsheets don't yield the timely and accurate data (both historical and real-time) and insights required to develop the most effective plans. It is also extremely difficult to make changes to existing plans on spreadsheets. In addition,there is no good way to model new plans and changes in order to assess their potential impact on sales motivation, revenues and profits.

Ask yourself: What risks could I avoid if I was able to "model" sales comp plans in advance of production? What sort of insights could help me create better, more effective sales compensation plans?

There are other problems associated with spreadsheets too, of course, including how they can lead to dumbed-down compensation plans because managing via spreadsheets is so cumbersome. But the overall message is that continuing to manage sales compensation using spreadsheets presents serious risks to a company's financial performance.

What's your path to salvation?

What finance sins are you committing by leaving sales compensation management to spreadsheets?

Bringing Sales Compensation Into Light

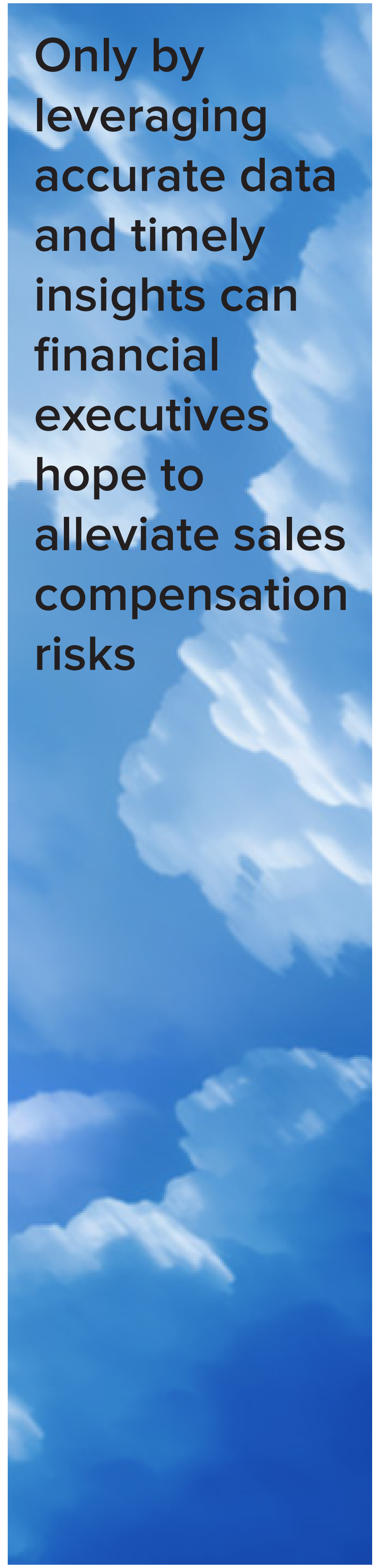
One of those paths could be automating the sales compensation management function. Not only does it open the door to solving the deadly sins of compensation above (as if those weren't enough), but it also opens the door to a whole new realm of efficiencies and opportunities. For starters, it unshackles sales data from the silos of spreadsheets; allowing key information to be integrated with other business systems such as finance systems, CRM, ERP, payroll and more. This fundamentally improves efficiencies, while also opening finance up to a new level of analysis and insight.

The best way to truly discover what it takes to drive optimal performance with the least amount of risk is to have historical data and a way to analyze it so you can see what worked, what didn't, and why. For finance this can mean looking at the most profitable product mix, analyzing what products sold best in what territories and when, how sales-crediting rules are working, when the biggest rep turnover occurs, etc. This is all critical information that will help the finance organization better plan, forecast and reconstruct compensation plans to be more impactful and profitable for both reps and the company alike. It also gives organizations a baseline so they can compare their data to similar companies in their industry.

Only by leveraging accurate data and timely insights can financial executives hope to alleviate sales compensation risks while properly motivating and influencing optimal sales behavior. However, this kind of big data sales analysis simply isn't possible in a spreadsheet model.

Take Control of Compensation

Establishing and keeping effective control over sales compensation is among the most important things a CFO can do. It's essential to compliance and critical to a company's top and bottom lines. It is also central to finance being a trusted strategic advisor to the CEO and the board. In addition, it is fundamental to running an efficient corporate finance shop. In summary automating the compensation management process saves time, reduces costs and eliminates the seven deadly risks of sales compensation by delivering:



1. Ensured Compliance

Unlike spreadsheets, automated sales compensation management systems use built-in compliance rules to ensure compensation transactions and processes meet federal audit requirements. They also provide a full and detailed audit trail. It is even possible to automate the delivery and signing of individual compensation plans by each of a company's sales reps. This step alone has become increasingly important and in some cases a legal requirement. For example, a new California law went into effect on January 1, 2013 stating that commission agreements must be in written contracts signed by the employee.

2. Reduced Error Rates

Error rates can plummet to near zero through the use of automatic data entry rules and rules-based compensation calculation. This eliminates over and under payments, and also makes sure that only accurate data is used for analytic purposes.

3. Improved Projecting and Forecasting

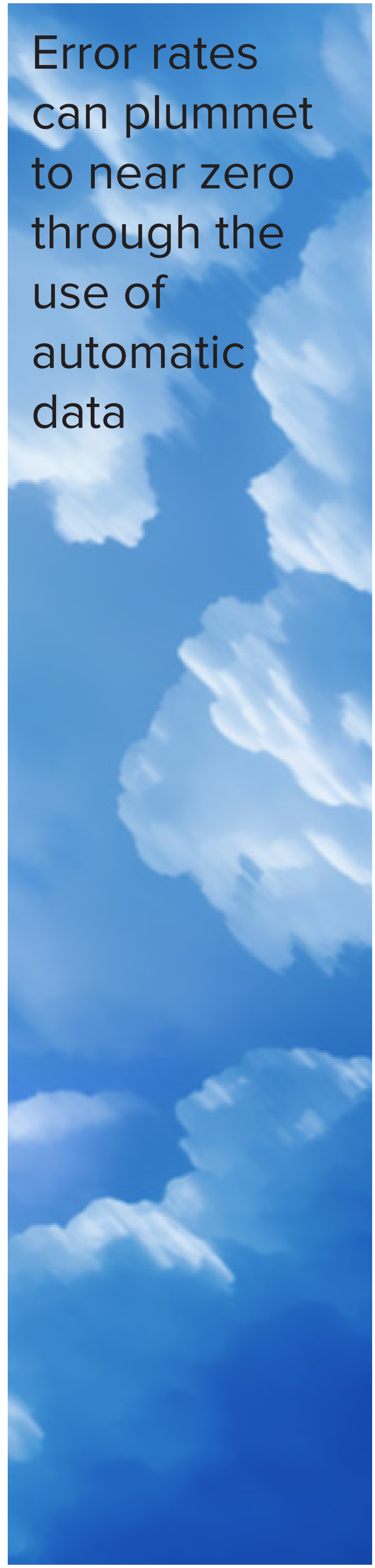
With reduced errors comes more accurate financial forecasting. Forecasting is also improved through the readily available historical and real-time data integrated in an automated system. For example, a finance executive can easily run multiple forecast scenarios using various revenue and sales mix projections coupled with precise data on the compensation plans of individual reps and managers.

4. Increased Trust

Getting rid of spreadsheets also improves the relationship between finance and sales. With reduced errors come fewer disputes, and finance and sales personnel have immediate online access to the exact same information to avoid disconnects.

5. More Efficient Finance Operations

One of the problems with spreadsheet-based processes is that they do not cost-effectively scale. Thus when a company adds sales reps, it also needs to assign additional finance resources to manage their compensation. This need goes away with automation, freeing finance headcount up for more strategic activities. Monthly and quarterly close processes are also accomplished with fewer resources and proceed much faster, with final compensation figures available within just days of close as opposed to the weeks required when the compensation process is handled manually.



6. Better Motivated and Strategically Aligned Sales Teams

Automation brings to sales compensation management the real-time visibility that the traditional spreadsheet model so seriously lacks. Instead of waiting for the end of each quarter to receive a compensation statement, reps can view their quota attainment online at any time (even conveniently through the company's CRM software of choice) which helps keep them much better aligned with strategic corporate objectives. It doesn't hurt that it makes organizations CRM applications more "sticky" too; giving the whole organization better insight into customers and deals in motion.

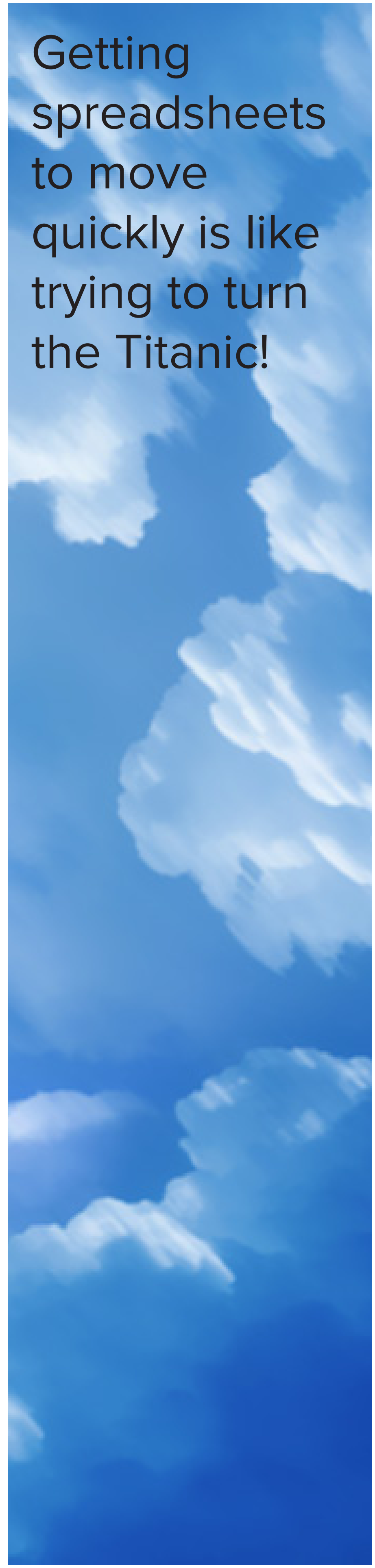
Lastly, automation empowers the company to realign sales compensation plans to move with the dynamics of their business. If a change in corporate direction happens, a company needs to sell more of X vs. Y in a given quarter, etc., plans can be modified and communicated to the field in real-time, giving the plan the agility it needs to meet new corporate objectives. Getting spreadsheets to move that quickly is like trying to turn the Titanic!

7. Plans that Really Work

Effective compensation plans drive sales behaviors that support company goals. Compensation management software helps organizations devise effective plans with no worries for how difficult they may be to manage.

Those responsible for creating the plans have access to historical data from past years' plans (and even industry benchmark data) to analyze what worked and what didn't, in order to measure success and failure and optimize next year's plans. They can also easily model any number of proposed plans prior to implementation. As the new plan year progresses, they have visibility at any point into whether a plan is working as expected so proper adjustments can be made.

Plan changes and the addition of special incentives (or SPIFs) can also be modeled and can be quickly implemented with a high degree of confidence that they will encourage the desired sales behaviors.



Final Thoughts

Organizations can't count on spreadsheets and manual processes anymore—not if they want to minimize their financial risks, eliminate massive system inefficiencies and inaccuracies, align sales rep behavior with their company objectives, and discover new ways to drive both revenue and profitability growth. The downside is too severe and the upside too immediate not to engage in a more automated, data-driven and modernized approach to sales compensation.

Chances are, you're already automating key processes across your organization, from HR to Marketing. So why risk getting burned with something as important as sales compensation?

Ask yourself: What new efficiencies and strategic benefits can automating sales compensation management offer my business? More importantly, what is the cost of doing nothing?

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