Evolution of Sales Compensation:
SPREADSHEET EXTINCTION

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INTRODUCTION

With the onset of globalization and high-level competition that exists in today's business environment, organizations must operate in an agile nature and be empowered to respond quickly to market shifts. Your sales organization is not only the face of your company, but expected to achieve corporate revenue goals while overcoming considerable challenges. The world of sales is in a state of continuous flux. The era of "relationship selling" is over. With vast information now available via web, buyers are more knowledgeable about your products and services before ever speaking to sales.

The resulting paradigm shift, characterized by digitally driven buyers with unlimited access to data, has created a significant obstacle in the traditional way of calculating sales compensation. Today, sales leaders are aware of the value they must provide to close new business. If your spreadsheets do not have flexibility to test different incentives, you are putting the retainment of your top performers and revenue goals at risk.

Before the tech boom, companies utilized spreadsheets to calculate compensation. At the time, even the most basic compensation plans became challenging to maintain when scaled to meet the needs of larger sales teams. According to The Mazar Group, "…close to 90% of spreadsheets contain errors and approximately 50% of spreadsheet models in use have material defects."

In the following sections, we will identify and examine the shortcomings of spreadsheets, and introduce both tangible and intangible benefits of automating your sales compensation.

ABSENCE OF ACCURACY

According to F1F9, a leading financial modeling and business-forecasting firm, "…one in five large businesses have suffered financial losses as a result of errors in compensation spreadsheets."

Imagine you are a top-performing sales executive within a large sales organization that is reliant on spreadsheets to calculate your commission. When you receive your "end-of-the-month" excel file detailing those earnings, you identify discrepancies. Now, you are responsible and expected to reach out to your HR department, and / or controller, and / or manager to inquire, perhaps sending your spreadsheet and supporting documentation to clearly prove the error. This scenario has just placed additional workload on your manager, who must research and approve a payment override, which must be processed by Finance and / or HR.

TAKEAWAYS

1) Compensation errors force several divisions of an organization to divert from key responsibilities and revenue generating activities to spend cycles reconciling errors.

2) This scenario is all too common, leading to confusion and potential disengagement of sales executives and other key resources involved in the resolution process.

These scenarios are completely avoidable!

Sales organizations with automated compensation processes immediately identify payout discrepancies or anomalies, and resolve prior to payment, avoiding the time and resource requirements and formalities of correcting after-the-fact.

EXCEL OPPORTUNITY COST

Will Murray reviews corporate denial within his book, "Corporate Denial: Confronting with World's Most Damaging Business Taboo" and explains the symptoms of this crippling phenomena whereby specialized resources feel a loss of purpose, trapped energy and witness painful waste.

Employees calculating compensation typically have a broader job scope than strictly management of sales comp. While organizations vary, it is common-practice for finance, sales operations or HR to oversee manual calculations, approvals and reporting.

Consider a finance team responsible for calculation of commissions, spending significant time manually manipulating transaction data and comparing/applying to individual sales executive comp plans. This team is foregoing benefits their other competencies would allow, by not focusing on higher ROI projects. Further, these teams are engaged in repetitive, mundane and tedious processes.

TAKEAWAYS

1) Manual commission processes reduce the value of your organization's human capital.

2) Commanding specialized workers spend hours, days or weeks executing mundane tasks will place these key resources at risk and diminish their contribution to corporate objectives.

Automation resolves this scenario by removing all manual calculations immediately, and delivering a new source of business intelligence to forecast and generate strategic performance and comp related reports.

Remove the value-drain and create a value-add; win-win.

ABSENT FLEXIBILITY, STRAIN AGILITY

Lack of flexibility is a liability and to every business. Being mindful of trends in buyer behavior, which are consistently evolving, companies must be thoughtful and pliable in their execution of compensation plans to ensure optimal revenue generating behaviors.

Imagine a quickly growing software start-up launching a new and exciting product line. Prior to the official launch, a sales executive sold the product in beta form to an earlier adopter customer, however their compensation plan does not yet acknowledge the product line or the payout.

The rollout and release of new product and service lines is an exciting time, however place a tremendous burden on finance teams to figure out the best way to incentivize employees while maintaining profitability. This compensation exercise could take months of iterations before adequate forecasting and plan performance can be measured.

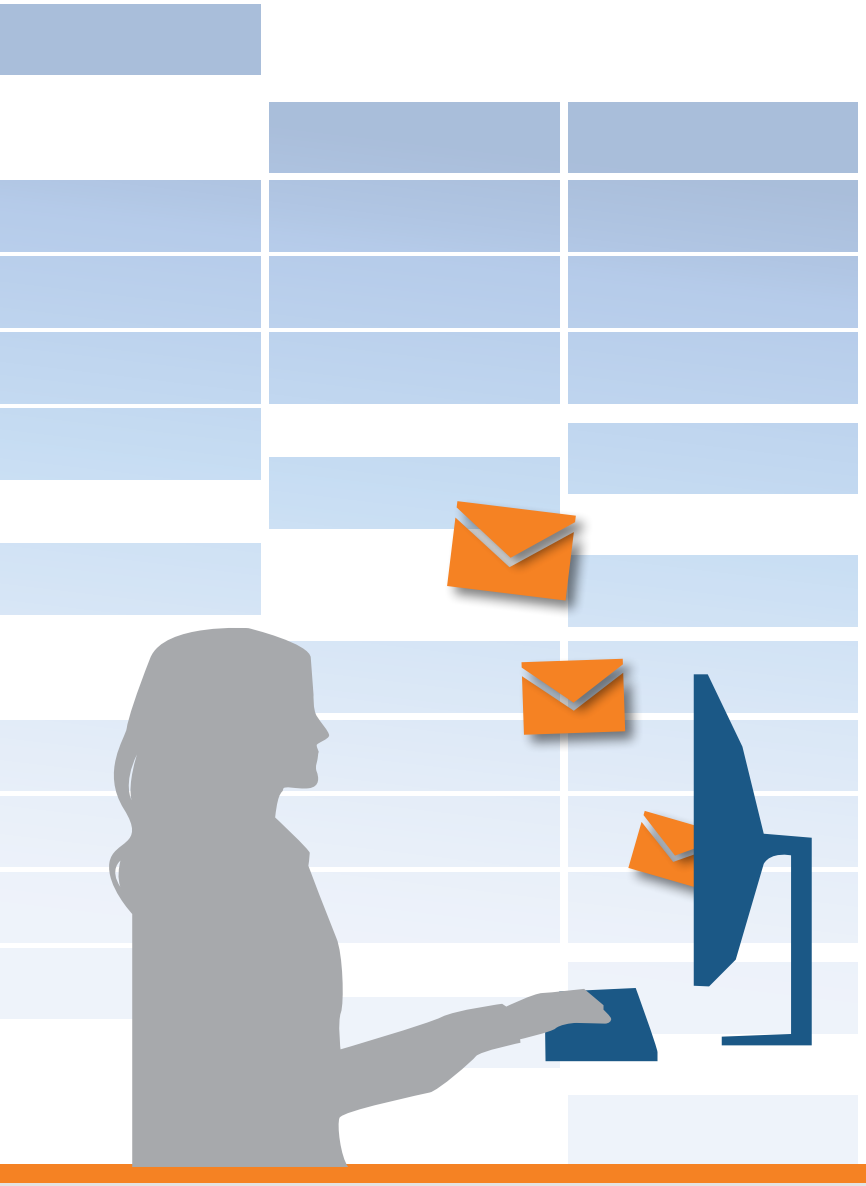
TAKEAWAYS

1) Quickly expanding organizations often neglect the direct impact to a sales organization when rolling out new products and services, adding new components to plans after-the-fact; taking sales executives' efforts for corporate success for granted.

2) Unrealized negative business process impacts of evolving products and services are real and effect human resources, finance, sales, operations, etc.

Imagine this company implemented a compensation automation system prior to launching the new product. These teams can quickly model and forecast plan changes while leveraging communication workflows to have plan revisions approved and communicated cross-division immediately.

ASSASSINATE VISIBILITY



Manual, Excel-driven commission processes require email communications for approvals. In some instances, sales executives are included and able to view their calculated earnings prior to payout, but in most cases there is simply not enough time or resources to manage these individual expectations. This is a BIG faux pas when organizations depend so much on these revenue-generating professionals.

Imagine you are a lucky sales executives that receives an excel document at the close of the month reporting your earnings. While you are likely very interested in analyzing the data, it is also the most critical time for you to close business. These conflicting objectives will require something be neglected; your earnings may or may not be accurate (but you can possibly resolve later) or the opportunities in contract can be pushed to close (or fall into the following month). What do you do? What would your company consider optimal behavior?

TAKEAWAYS

1) Does your organization really want sales executive to choose between reviewing their earning calculations OR closing business?

2) Lack of visibility and expectation management to your key sales groups is directly correlated to a decrease of performance.

Imagine a company leveraging a total compensation solution; no spreadsheets, no emails. In lieu of spreadsheets, both sales and management use dashboards to review earnings and performance measures, as transactions are closed; during their ideal/ down times.

Make the process work for you and your teams; don't allow your valuable resources to work for their compensation process or choose between closing business or reviewing earnings calculations.

ANALYTICS OF COMMISSION SPEND

A critical component for any successful comp plan is the ability to aggregate data to tactically measure individual, group, regional, and product-line performance. If you are leveraging spreadsheets for the commission process, it is not reasonable to expect an accurate or timely drill-down analysis.

Imagine a company using spreadsheets for commission calculations, and leadership requests performance reports for a new product line, as well as specific sales executives. These specialized reports will require hours or days to prepare, and most certainly will contain multiple errors.

TAKEAWAYS

1) A request for specialized performance reports may seem reasonable, however unless your employees are empowered with proper tools, the manual generation will cause a tremendous amount of stress and time from multiple resources.

2) Consider quantifying the amount of hours resources within HR, IT, sales, and finance spend manually compiling reports. Your resulting figure will likely be greater than an investment in compensation automation technology.

Enable immediate, strategic decision-making based on accurate data with a total compensation solution. With automation, the tedious, manual and error-prone process is removed and reports are generated upon request.

Companies with automation have a repository of transaction history, with trend and sales performance data, as well as specialized analytics at their fingertips; always accessible. Leadership may quickly spot trends and identify new opportunities independently!

CONCLUSION

As technology continues to change the world of sales, the ability to support and motivate your sales force with the right incentives and compensation plans is imperative. Organizations must be able to quickly create, test, and implement new plans to keep up with changes in buyer behavior. If you're currently using a manual sales compensation process, visit Iconixx's website and learn more about automating today.

THE DARWIN AWARDS

See reported examples of the magnitude of damage manual errors and spreadsheets have created for well-known organizations.

TransAlta

Canadian power generator

Loss of $24 million after a cut and paste error on a spreadsheet

http://www.theregister.co.uk/2003/06/19/excel_snafu_costs_firm_24m/

Fidelity Magellan Fund

Mutual fund

Loss of $2.6 billion when a minus sign was omitted from a spreadsheet

http://www.nytimes.com/1995/01/04/business/magellan-error-is-explained.html

JP Morgan

Financial services firm

Loss of $6 billion due to a small error within an Excel spreadsheet

http://www.zerohedge.com/news/2013-02-12/how-rookie-excel-error-led-jpmorgan-misreport-its-var-years

Harvard University

Researchers released a report on which many European governments based economic policies. Years following the release, a coding error was uncovered in the original spreadsheet, substantially revising earlier findings. While difficult to quantify what this error cost European governments, estimations are reported in the billions.

http://www.huffingtonpost.com/dean-baker/reinhart-rogoff-austerity_b_3343688.html

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