VENTANA RESEARCH

# Sales Compensation Management

## Improving the Impact of Pay and Incentives to Maximize Revenue

## Research Report Executive Summary

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**June 2014**

Ventana Research performed this research to determine attitudes toward and utilization of sales compensation management. This document is based on our research and analysis of information provided by organizations that we deemed qualified to participate in this benchmark research.

This research was designed to investigate sales compensation management practices and needs and potential benefits. It is not intended for use outside of this context and does not imply that organizations are guaranteed success by relying on these results to improve sales compensation management. Moreover, gaining the most benefit from sales compensation management requires an assessment of your organization's unique needs to identify gaps and priorities for improvement.

The full report with detailed analysis is available for purchase. We can provide detailed insights on this benchmark research and advice on its relevance through the Ventana On-Demand research and advisory service. Assessment Services based on this benchmark research also are available.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with and knowledge of sales compensation management, and that the analysis and conclusions are entirely our own.

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# Executive Summary

To maximize their effectiveness across the enterprise, from top management through finance and operations to the sales representatives on the front line, sales organizations must integrate their people and processes tightly with all available information and the needed technology. A key enabler of sales success is to motivate sales personnel through compensation that recognizes their accomplishments and rewards them appropriately and promptly. However, few sales organizations take a comprehensive approach to sales compensation management.

Ventana Research undertook this benchmark research to determine the attitudes, requirements and future plans of those who engage in sales compensation management.

Every organization needs a well-developed compensation strategy that utilizes incentives and rewards to motivate sales talent as fully as possible. In constructing and refining this strategy it is essential to have access to all relevant information about quotas, territories, forecasts, bookings and accounting. Successive waves of technology investments – in sales force automation (SFA), enterprise resource planning (ERP) and customer relationship management (CRM), for example – have yielded only limited improvements in the impact of sales compensation. This is in large measure because these broadly focused technology tools aren't dedicated to compensation, whereas newer tools now available are designed with compensation management in mind.

Ventana Research undertook this benchmark research to determine the attitudes, requirements and future plans of those who engage in sales compensation management and to identify the best practices of organizations that are most mature in it. We set out to examine both the commonalities and the qualities specific to major industry sectors and across sizes of organizations. We considered how organizations manage sales compensation, issues they encounter in the process and the information technology they use.


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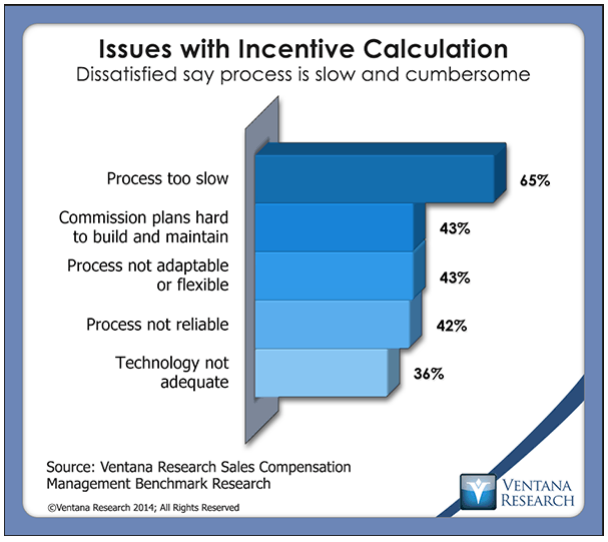
Three-fourths of the organizations participating in this research said that compensation is very important to the success of a sales organization. Moreover, two-thirds said that managing commissions and compensation is very important to success. Yet the research finds that only 38 percent can calculate and compile sales commissions within two weeks after a reporting period. Indeed, one-third – almost as many – take three weeks to a month to do it, and one in five take between one month and one quarter. The research also shows that completing the cycle sooner enhances satisfaction with the process of calculating incentives; three-fourths of organizations that finish in less than a week are satisfied with their process, compared to half that take a week to a month. That's because an efficient process of calculating sales compensation facilitates communicating with sales personnel about their earnings and paying them for their achievements.

Overall, half (52%) of organizations are satisfied with the current process used to calculate incentives, while 41 percent are not satisfied. Among the latter group most said it's because the process is too slow (65%). Large percentages also said commission plans are too hard to build and maintain, the process is not adaptable to change, the process is not reliable and their technology is not adequate.




Timeliness matters in other aspects of the sales compensation process as well. For example, three out of four research participants said quota management is important or very important. Two in five (39%) organizations review progress toward quotas and potential commissions daily or weekly, while slightly fewer (32%) review progress monthly. More than half of organizations that review it monthly or more often are satisfied with the process they use to calculate incentives, while two-thirds of those that review it annually are not satisfied with their current process.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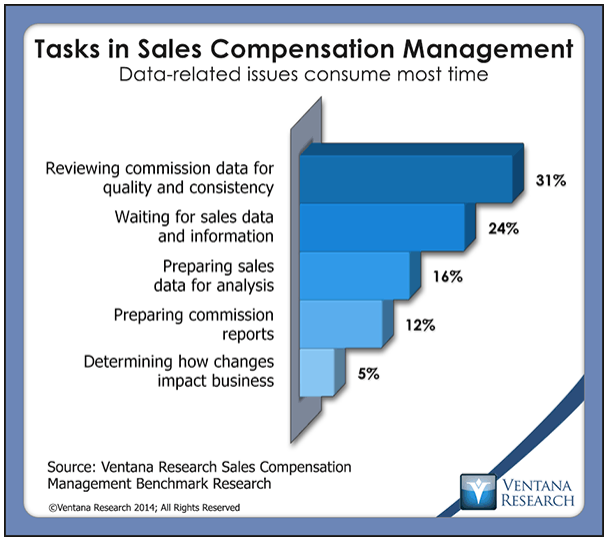
Because calculation of incentives depends on numbers, sales data must be complete and accurate to make it possible to reward sales performance fairly and promptly. Most participants in this research (72%) said they are confident or very confident in the quality of information being generated by their sales compensation process. It is understandable that only 21 percent of those just somewhat confident in their information quality are satisfied with their calculation process.

After the basics of commissions and compensation, the largest percentages of participants said that analytics (55%) and reporting (49%) are very important components. These are critical for understanding and communicating information, and here the research finds data issues impacting the compensation process. People spend most of their time not in analysis or reporting but in three preliminary areas: reviewing commission data for quality and consistency (31%), waiting for sales data and information (24%) and preparing sales data for analysis (16%). Only 12 percent spend the most time in preparing commission reports or documents for presentation and distribution, and even fewer (10%) focus most on analysis, trying to determine how changes impact current business or the root causes of situations related to commissions. Spending so much time on data-related preliminary tasks can delay communications about and payments of compensation as well as limit strategic analysis.




To ensure they can generate needed information quickly, most organizations need software that can streamline the process. The research shows that most realize this. More than half (52%) use an application other than spreadsheets or generic planning tools to manage sales compensation, as do three-fourths of very large organizations. However, many fewer (31%) use an application designed to manage sales compensation as their primary software; nearly as many (30%) use spreadsheets. Only 11 percent now use SFA or CRM to manage sales compensation. Three times as many (75%) of those that use a dedicated sales compensation application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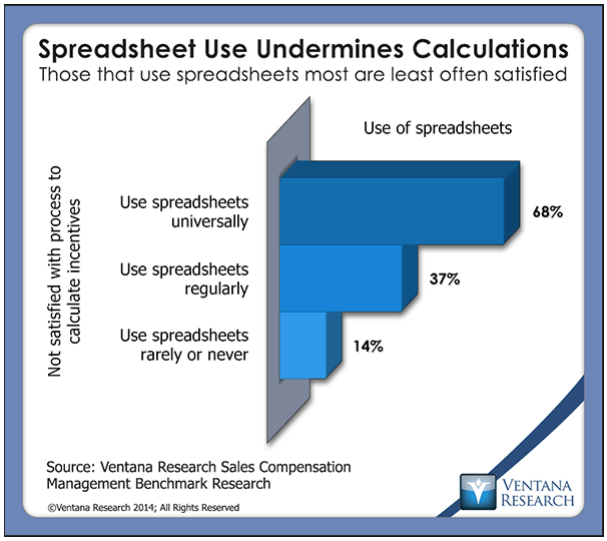
are satisfied with their process used to calculate incentives as are those that use spreadsheets (26%). Similarly, 40 percent of them are very confident in the quality of the information generated by the process, as opposed to 12 percent of those that primarily use spreadsheets.

Ventana Research regularly warns businesses against using spreadsheets for enterprise processes that involve more than a few people. Like other research we have conducted, this finds evidence to support that caution. Only about one-third (37%) of those that use spreadsheets universally or regularly to manage and track compensation and commissions said that the spreadsheets they use are accurate and timely. Three out of five (61%) said that reliance on spreadsheets makes it difficult to manage sales commissions efficiently. Many more organizations that use spreadsheets rarely are confident (39%) in the quality of sales compensation information than are those that use them universally (18%). We also find a correlation between the extent of spreadsheet use and satisfaction with the process used to calculate incentives: Less use promotes more satisfaction.




In addition, organizations that use a dedicated sales compensation application reported more often than those using any other type of application that they have no impediments that are motivating them to consider further investment. Nearly half of those primarily using spreadsheets (48%) said they have such impediments, compared to one-third of all participants. The four most common impediments are inconsistent execution in sales (reported by 61%), lack of sales effectiveness (48%), limited alignment of sales and strategy (45%) and scattered sales information (41%).

Despite the prevalence of impediments that prompt thoughts of new investments, however, most organizations (58%) do not plan to change their vendor for sales compensation management software in the next 12 to 18 months; only 5 percent are sure they will change,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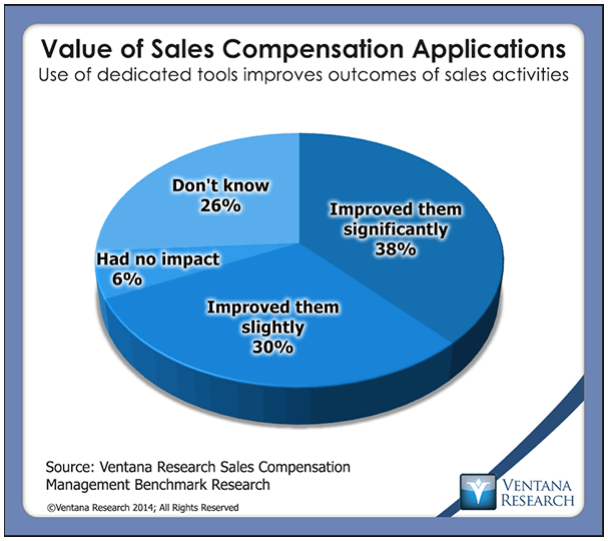
and 14 percent are considering change but are undecided. Two-thirds of those considering change are motivated by the desire to address impediments in their sales organizations. The factors obstructing the adoption of more capable software are lack of a budget (for 42%), low priority (38%), a business case that is not strong enough (37%), lack of resources (37%) and lack of awareness (28%). Thus while many participants see a need for better tools, the research suggests that others in their organizations may not.

The sales operations group is at the center of sales compensation management and typically is tasked with assessing and selecting appropriate software. Nearly half (49%) of participants said they trust sales operations completely to identify and select sales compensation applications, nearly twice as many as completely trust their IT department (27%) to do that task. More broadly, three out of four said they are confident (36%) or very confident (40%) in their organization's ability to select and use sales compensation applications. The research finds a correlation between processing commissions efficiently and confidence in the ability to select and use compensation applications: Only about half of organizations that take longer than one week to process their sales commissions have such confidence.

We advise organizations seeking to improve sales compensation management, particularly by investing in more capable technology, to identify operational and business benefits of doing so. The research finds that several improvements of process and tools have helped organizations improve the outcomes of sales activities and processes. For example, more than half (57%) of those that process their commissions in less than a week have improved the outcomes of their sales organization. Two-thirds that use a dedicated sales compensation application have improved the outcomes of sales activities and processes significantly (38%) or slightly (30%).





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Overall, the benefit most often achieved through application of sales compensation capabilities is aligning the sales force to business strategy and goals; this benefit was ranked first by 43 percent, much more than any other. After that, benefits most often ranked first or second were better management and tracking of the progress of product and sales initiatives (by 30%), improved communications to Sales on the status of compensation (26%) and improved auditing and compliance of sales forecasts to goals and targets (25%). All of these benefits are evidence of a better process that has positive effects on people and the larger organization.

Improving outcomes also requires metrics that are aligned to sales objectives. To measure overall sales performance organizations most often use quota attainment (65%), revenue attainment (63%) and customer revenue (51%). Each of these metrics can be tied to compensation, rewards and incentives. Organizations should make sure that sales compensation software under consideration facilitates creating, tracking and reporting on metrics. Asked about evaluation criteria for selecting such software, more than four out of five said usability, manageability and reliability (which includes efficient processing of commissions) are important or very important. Applying these criteria can help users in both the sales and IT functions and streamline the process of sales compensation by removing impediments and automating repetitive tasks.


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Ventana Research is the most authoritative and respected benchmark business technology research and advisory services firm. We provide insight and expert guidance on mainstream and disruptive technologies through a unique set of research-based offerings including benchmark research and technology evaluation assessments, education workshops and our research and advisory services, Ventana On-Demand. Our unparalleled understanding of the role of technology in optimizing business processes and performance and our best practices guidance are rooted in our rigorous research-based benchmarking of people, processes, information and technology across business and IT functions in every industry. This benchmark research plus our market coverage and in-depth knowledge of hundreds of technology providers means we can deliver education and expertise to our clients to increase the value they derive from technology investments while reducing time, cost and risk.

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# Appendix: About This Benchmark Research

Ventana Research designed this benchmark research for executives and business and IT managers involved in managing sales compensation or the purchasing of technology for this area. The research was conducted from November 2013 through February 2014. Applying our standard methodology and quality assurance criteria, we identified 161 qualified participants. They represent a range of organization sizes: 25 percent from very large companies (having 10,000 or more employees), 24 percent from large companies (with 1,000 to 9,999 employees), 36 percent from midsize companies (with 100 to 999 employees), and 15 percent from small companies (with fewer than 100 employees). A large majority (90%) of these companies are located or headquartered in North America, although many of these are global organizations operating worldwide. Among industry categories, companies in manufacturing accounted for 47 percent, those that provide services for 42 percent and those in finance, insurance and real estate for 10 percent. Government, education and nonprofits accounted for the remaining 1 percent. Categorized by their job title, 12 percent are executives, 19 percent are in management, and the majority (67%) are what we term users in the lines of business. By functional area, the largest group by far (45%) is in the sales function; another one-fifth work in finance or accounting, and 14 percent work in HR or operations. (More demographic detail about the participants is available in the full research report.)

**This Executive Summary is drawn from the full Ventana Research Benchmark Research report. The full report is available for purchase, payable by check or credit card. Advice and focused guidance based on this benchmark research can be purchased through our Ventana On-Demand service. For more information about the full Benchmark Research report or assessment of your organization using our Performance Index methodology, please contact us at sales@ventanaresearch.com.**


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