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INCENTIVIZING FOR SUCCESS

When it comes to running a sales team, your Incentive Compensation Program is probably the most powerful weapon you have in your arsenal. A well designed plan holds the keys to aligning sales efforts across the organization and executing your strategy.

However, with such power comes great responsibility. Sales force compensation represents the single largest sales and marketing investment for many businesses. The average company spends 10%, and in some industries up to 40%, of their total revenues on their sales force. In fact, it is estimated that the US economy spends over \$900 billion on sales forces annually, which is almost three times more than the amount spent on advertising.¹

What are you doing to technology-proof your commercial operations?

Many organizations still rely heavily on spreadsheets. Given that almost 90% of spreadsheets contain errors, is this really the best way to plan the operations that consume 20 to 25% of a company's revenues?¹



Despite this investment, many organizations fail to leverage the power of the compensation plan to align their sales efforts and drive a successful strategy.

Research from the American Management Association shows that 45% of sales representatives do not understand their compensation plans² and a recent survey by WorldAtWork highlights that only 30% of companies feel their employees understand their compensation philosophy.³

This is a serious issue. When everyone is not on the same page, it creates a culture of confusion. This can drive internal conflict, selfish behaviors and increased churn. Sales representatives with limited focus and motivation are more likely to leave before they are fully productive, costing you in investment and delivering very little in return.

It is impossible to drive a high performance sales team without getting the compensation plan and its execution right.

Over the past year we have worked with over 50 leading companies in the commercial operations space with the majority of interactions at the VP and director level. Based on these engagements and our learnings we created this strategic 5 step guide for senior commercial executives on incentivizing for continued success.

Step 1: Get Everyone On The Same Page

Step 2: Reward The Right Behaviors

Step 3: Establish Strong Governance

Step 4: Create A Winning Culture

Step 5: Continually Evaluate & Recalibrate

1. HBR Executives and Salespeople Are Misaligned — and the Effects Are Costly-
2. AMA - Improve Your Sales Incentive Plan - 2015
3. Worldatwork - Compensation Programs And Practice - 2014

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Incentive Compensation needs to be a corporate-wide initiative and not something executed in a silo by sales.

Sales operations, finance, legal and HR all have different perspectives and they need to be on the same page when it comes to organizational goals and how to drive behaviors required to support the commercial strategy. Ultimately it is the sales representative who gets compensated, but all business functions play a critical role in the design, execution and success of the plans.



Alignment must first start with the agreement of goals and objectives. This needs to be top-down in order to set a common direction for the organization and should cascade out from corporate to brand, region to market. It should be very clear what success looks like across all levels and business functions - whether it be revenue growth, profitability, market share, account development, compliance or talent retention.

STEP 1: GET EVERYONE ON THE SAME PAGE

“ Our involvement in the compensation program ensured all payment structures were profitable and in line with corporate revenue forecasts.

Senior Finance Executive, Top US Firm ”

It is then recommended to calibrate these goals against the market using data-driven insights. Targets should be aggressive yet achievable in the current market landscape, taking competitive pressures, government legislation, socioeconomics, product launches and feedback from the field into account. This is a critical step that many organizations fail to acknowledge, falling back on historical performance as the only guide to future potential. Set the bar too low, and you waste an opportunity to drive revenue growth and take valuable market share. Set the bar too high and you risk demotivating the sales team, leaving them adrift with an impossible mountain to climb.

With targets validated and agreed upon, it is then necessary to determine what needs to take place to get there. Many organizations jump right into payment design, tying compensation with lagging performance measures such as revenue growth. The often missing step is to consider the granular activities and behaviors required from the sales professionals to be successful, and then design the compensation plans around that. The pay mix, payment curve, payout period and bonus types should all be focused on motivating the desired behaviors to drive the commercial strategy. This is the only sustainable way to get the entire organization aligned and marching in the right direction.

With the whole organization on the same page, it is then necessary to get full commitment across the business to making the commercial strategy a success. Sales, Commercial Operations, HR, Finance, IT and Legal all have key parts to play and should be held accountable. Regular reviews should take place, using data-driven insights to monitor progress and take the appropriate action when required.

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As the pharma industry shifts from volume to value-based business models, the behaviors of sales professionals must also change.

The pharmaceutical industry is undergoing changes with the increasing influence of payers, pressure from the government with restricted healthcare budgets, and the rise of multi-channel marketing.

The increasing focus on healthcare cost containment by payers is changing the type of pricing negotiations between pharma companies and payers. The pricing is now becoming outcome and evidence-based and requires demonstration of value to specific patient sub-populations.

Changes in emerging environmental trends facing the pharma industry are requiring companies to rethink different strategic and operational sales force plans that ultimately drive new outcome measures. Among these sales force changes, are considerations to implement incentive compensation designs that move away from traditional Rx-volume measurement.

In order to motivate the right behaviors, it is first necessary to become highly specific on the measurement. After all, you can only manage what you can measure, and assessing performance becomes much more challenging when tied to perceived value. A blend of quantitative leading measures combined with soft-skill assessments is recommended here. Leading measures tied to seller activity provide an indication of effort, whereas soft-skill assessments provide an indication of the ability to deliver value.

STEP 2: REWARD THE RIGHT BEHAVIORS

“ Show me a company’s various compensation plans, and I’ll show you how its employees behave.

Jack Welch, Former CEO of GE ”

Understanding the right blend of sales activity, experience and knowledge, and knowing how to motivate sales representatives, is the secret sauce to driving sales performance. For this reason, it is important to reward both target achievement and process adherence. With these mechanics in place, it is possible to understand what is working and be able to do more of it.



Finally, when it comes to motivating the right behaviors, it is important for sales professionals to see the link between effort and reward. It is therefore critical to honor compensation commitments, rewarding accurately and on time. It is the only way to build a culture of trust and loyalty, and drive repeatable success.

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Step 1 was about getting everyone on the same page – this step is about ensuring that the strategy agreed upon in planning is actually executed.

This is about taking the boardroom commitment and making it happen. Unified execution can only be achieved with consistently strong leadership shown across all areas of the business. Sales, Commercial Operations, Finance, Legal, HR and IT all have a critical role in the governance of a high performance selling organization.

Strong business processes need to be put in place to ensure adherence to the commercial strategy. Local exceptions acknowledged, the strategy should cascade out from corporate to brand, region to market.

Ongoing governance is extremely important for both financial accuracy and sales motivation. This means an end to Excel. Various studies show that 88% of spreadsheets contain errors, and with sales compensation representing the single largest marketing investment for most B2B companies, the switch to a modern Incentive Compensation system is essential.¹



STEP 3: ESTABLISH STRONG GOVERNANCE

“The errors in Excel were embarrassing. We had an incident in Europe where we overpaid a rep for 4 months. He left the company after our clawbacks.”
Head of Commercial Operations, Global Company”



of spreadsheets contain errors.¹ Excel is not the tool to manage the single largest marketing investment for most B2B companies.

Financial accuracy also has a major impact on sales productivity. When sales professionals trust the system and feel that it represents what they should be paid, they avoid shadow accounting and focus their efforts on selling. At the same time, the de-motivational impacts of financial claw-backs are also a major issue. This happens more than you think, with Gartner reporting that 8% of all sales compensation expenditures are overpayments². Our research shows that 75% of claw backs resulted in sales representative attrition within 24 months.

In parallel with new systems, a modern Incentive Compensation process is also required to manage inquiries and disputes from the field. Compensation issues need to be acknowledged and resolved with pace and transparency in order to keep sales teams motivated. Given the dynamic nature of the market, a strong change request process with predefined approval chains is also required to react to unexpected situations.

Finally, governance is not achieved only through strong process management and supporting technology. Equally important is the role of a mentor in communicating and driving commercial strategy. The first line sales manager (FLSM) must be hands-on in motivating the sales team, coaching the right behaviors and resolving any disputes as quickly as possible.

1. MarketWatch - 88% Of Spreadsheets Have Errors - 2013
2. Gartner - Market Scope for SPM - 2012

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Money isn't everything. For the generation that now makes up the majority of the American workforce, it is flexible working conditions, personal fulfillment and peer recognition that top the list of motivating factors.

Millennials are well educated, socially aware, skilled in technology, able to multi-task and have plenty of energy. They view the workplace through the same lens as any other aspect of their lives: instant, open and with no boundaries. They have grown up in an era where stability is boring and rapid change is the norm. They thrive on competition and demand a workplace that reflects their values, attitudes and lifestyles.



This does not mean an end to financial incentives, but a modern compensation strategy needs to also take the aspirations of the next generation seriously. Gamification is a recommended approach that helps to foster an environment of friendly competition and capitalize on an individual's inherent drive to win.

Sales gamification is typically integrated into the CRM system, where each sales representative's activity and progress is tracked in real-time. The platform frequently updates a shared leaderboard, revealing a definitive ranking of the sales talent across the organization. It is also common to award points, badges, crowns and trophies for achieving certain goals. These virtual rewards can ultimately be traded for a variety of real-life rewards that can range from a long weekend, all the way up to President's Club.

STEP 4: CREATE A WINNING CULTURE

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You don't get to witness real sales performance until you create open competition and rank sales professionals against each other.

Regional Sales Manager, Fortune 500 Company

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Benefits of Sales Gamification include:

- Competition: Capitalize on an individual's drive to win
- Recognition: Rewards are almost instant and seen by all
- Transparency: Open access to team performance
- Mentorship: Easy to identify who is not performing

While many companies reward salespeople on a commission basis, research demonstrates that non-cash incentives such as gift cards are more effective at improving motivation, boosting performance, and increasing a company's bottom line. Non-cash rewards typically become the subject of bragging or the basis for collective activities, "cash has little trophy value or lasting effect".

Gamification certainly has a place in a modern compensation strategy and is key to creating a culture of winners. It is recommended to use traditional financial incentives to reward lagging measures such as quota attainment, sales revenue and profitability. Gamification techniques tend to be more successful when rewarding leading sales measures such as number of calls made, number of brands detailed and even aspects of CRM data quality and process adherence.

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Fierce competition, government regulations and M&A activity have created a dynamic environment that is continually evolving. Take your eye off the ball and you could be out of the game...

As with any area of commercial operations, the one thing you must not do is stand still. Incentive Compensation strategies implemented today may not work tomorrow. The insights and assumptions leveraged for initial rollout will quickly become outdated and must be refreshed. The days of the annual cycles are well and truly over.



To succeed in today's environment, organizations must continually evaluate how well an incentive program is performing and be in a position to take the right corrective action. Once launched, it is important to reach the point where you have generated enough data about the current plan to understand if it is working or not. Historical, current and industry benchmark data should all be analyzed in real-time to provide an accurate picture of effectiveness. Having this insight available at corporate, regional and market level is key for a balanced assessment.

STEP 5: CONTINUALLY EVALUATE & RECALIBRATE



Making the change is the easy part. Knowing if it is the right change and having to second-guess the impact is what scares us.

Commercial Operations Executive, US Organizations



Suggested Approach

- Reach a point where enough data has been generated to understand if a plan is working as desired
- Access all available data sources to get a complete picture of effectiveness (historical, current and benchmark)
- Highlight any issues or repeatable areas of success
- Understand the options available and associated impact
- Have the insight available to make well informed decisions
- Commit and roll out

It is important to remember that changes to in-flight compensation plans can have a major impact on the sales organization, affecting focus, motivation and loyalty. It is important not to disrupt sales productivity with unnecessary distractions. However, if there is business justification to make the change and all options have been evaluated - the changes should be actioned promptly.

While many managers only track outcomes, those at top performing institutions set objectives for each stage in the sales pipeline, such as prospect and client calls completed, client meetings held, sales closed and products sold. Teams achieve maximum effectiveness when goals are clearly communicated, metrics are simple and the objectives are perceived as attainable. It also helps when teams can see how their own branch sales goals contribute to district and company-wide sales objectives.

This requires a combination of analytics tailored to your product competency, sales operations applications and smart decision support.



This 5 Step Guide is a part of AIM (Axtria Intel Monitor), which is an engaging series of thought leadership that showcases Axtria's intelligence on therapy areas, industries and topics relevant to the life sciences.

Over the past decade, we have worked with over 100 clients in the life sciences industry and interacted with their analytics, commercial operations, and commercial IT leaders. Based on these engagements and our learnings, we have created a series of strategic 5 step guides on how to drive commercial excellence.

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Founded in 2010, Axtria is a global provider of cloud software and data analytics to the life sciences industry. We combine industry knowledge, business process, and technology to help our clients make better data-driven decisions.

Axtria's cloud-based platforms, Axtria DataMAx™, Axtria InsightsMAx™, Axtria SalesIQ™, and Axtria CustomerIQ™ enable customers to efficiently manage data, leverage data science to deliver insights for sales and marketing planning, and manage end-to-end commercial operations. We help customers in the complete journey from Data to Insights to Operations.