



COVID-19

Coronavirus Pandemic Effects on Incentive Compensation

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1. Summary of COVID-19 Effects of Incentive Compensation

The rapid spread of the coronavirus contagion has resulted in pharma companies facing significant ramifications on their business, requiring a change in assumptions, thinking, and decisions going forward. See the cited *Axtria Research Hub* reference for a comprehensive summary of effects on sales, marketing, managed markets/market access, and analytics.¹ One such critical area of effect from the coronavirus pandemic is on incentive compensation (IC). Pharma company investment in the sales force is significant in both personnel and economic terms. Mandates on social distancing, travel disruptions, shelter-in-place state orders, closures of physician offices and hospitals to sales reps, and company concerns for the health of their field force have significant effects on the personnel dimension of implementing IC plans. Pharma companies also rely on sales reps for the effective delivery of critical scientific/medical/clinical information to healthcare professionals (HCPs).

Prior empirical studies affirm the relationship between the dissemination of scientific information by promotion (sales and marketing) with business performance.²⁻⁵ Thus, having the right incentives strategies in place is important to help drive sales rep-physician engagement and relationship building while also motivating the sales force to achieve performance goals. Spending on direct sales forces accounts for close to 50% of all sales and marketing costs. The most common pay-mix of sales rep total compensation broken down by base salary and at-risk reward governed by the IC plan being is 75%-25% (although pay-mix might vary based on therapeutic area and sales role). Therefore, effectively managing IC in light of effects from the coronavirus pandemic has significant personnel and economic implications that a pharma company must weigh and balance. This paper focuses on coronavirus pandemic effects on IC for pharma companies in the short-term, medium-term, and long-term, while also providing prescriptive actions for sales executives to consider in each time frame scenario.



Table 1 below outlines coronavirus pandemic effects on sales force optimization (SFO), goal setting, and IC.

Table 1: Coronavirus Pandemic Effects on Sales Force Optimization, Goal Setting, and Incentive Compensation

Sales Force Optimization



For the next SFO cycle, sales execution assumptions will have to account for COVID-19-induced limitations and productivity changes in the historical data from this time period.



Unless long-term effects persist, such as lingering access restrictions or economic effects, much of the productivity impacts from this time will need to be discounted.




Localized decisions around HCP and health systems access will vary regionally and will impact rep productivity data unevenly for sales forces.



It will be crucial for sales operations to gather localized intelligence and triangulate with third-party data to understand these impacts and discount the temporary impacts in the historical data appropriately.

Goal Setting and Incentive Compensation



IC outcomes are used to motivate the sales force, drive engagement, measure individual sales rep performance, and ensure reps do activities and behaviors conducive to achieving the outcomes from the SFO process.



Likewise, sales reps rely on IC payments as a regular part of their compensation packages and cost of living.



With at least the short-term (and maybe longer) inability to execute their regular duties, sales reps will need to know how this important part of their compensation package will be handled.



In addition, companies need to consider medium and longer-term impacts on baseline comparison periods and goal setting.

Source: Atria, Inc.

Table 2 below outlines a summary of COVID-19 impacts on IC. The time frame of decision-making will be categorized as

follows: short-term (1 quarter), medium-term (2-3 quarters), and long-term (12-24 months).

Table 2: COVID-19 Impact on Incentive Compensation Summary

	SHORT-TERM	MEDIUM-TERM	LONG-TERM
Plan Design	Measure mid-qtr. performance for Q1'20 (for US). Pay better of performance vs target. At-target pay.	Think about brand forecast relief. Reduce the entry point on payout curve. MBO OR Indexed plans.	Leverage hybrid plans.
Performance Measures	Avoid traditional activity based metrics/call adherence etc. Only measure what reps can impact.	Avoid traditional activity based metrics/call adherence. Look at qualitative measures.	Align measurable KPIs with role responsibilities based on any operating model changes.
Contests	Shelf the contest OR reduce the contest period up to Feb'20.	Avoid any in-person detailing/activity based contest for next couple of quarters.	Assuming that COVID situation is under control. Leverage contests to drive engagement and back to in-person selling.
Annual Trip	Cancel the annual trip OR Option to cash out OR Postpone 2019 Year end award.	No action required.	Do a mid-year check-in for 2020 ranking with option to exclude impacted months. Look at alternate metrics for year end ranking.
Goal/Target Setting	No change on Q1'20 goals. Attainment based on Jan-Feb'20 (for US).	Think about brand forecast relief.	Longer baseline period for setting goals. Smooth out historical trends.
Merit Reviews	No action required.	Postpone merit evaluation to back half of 2020.	Exclude performance data for the impacted months.

Source: Atria, Inc.












2. Detailed Impacts on Incentive Compensation and Things to Consider

This section will provide tables outlining the short-term, medium-term, and long-term effects and associated things to consider during each time frame.

2.1 Short-Term Impact

COVID-19 has crippled the entire global economy with countries/states/cities being put on partial or complete lockdown, social distancing, and travel limitations. The two things from this list of reactions to COVID-19 that impact the pharma sales force the most from a short-term perspective are social distancing and travel limitations. **Table 3** is a list of sales force impacts and things sales executives should consider for relief in the short-term (next 1 quarter).

Table 3: Short-Term Impacts and Things To Consider

Short-Term Impact On					
 <p>Reps are unable to execute their standard duties, and standard performance measures (e.g., quota attainment) will be negatively impacted.</p>	 <p>Plan of action (POA) meetings being canceled.</p>	 <p>Annual Awards: President's-Cup Trip canceled due to travel restrictions and social distancing.</p>	 <p>New hires due to travel restrictions and social distancing as it limits them to visit the HCP office.</p>	 <p>Sales Contests/SPIFs (Special Promotion Incentive Funds) that are being administered in Q1'20 as sales reps are not able to do any detailing.</p>	
Things To Consider					
 <p>For Q1 2020, could measure and pay based on unimpacted time frame – Jan and Feb in US OR, better of performance and target. Freeze Q1'20 quarter mid-way and consider Jan-Feb and March as two separate periods.</p>	 <p>For Q2 2020, consider paying all reps at target or paying reps <x%> of target.</p>	 <p>Leverage online technology for IC plan rollout (e.g., something like a TED talk).</p>	 <p>Companies could postpone annual trip awards OR have the option to cash out OR convert into catalog points.</p>	 <p>Reduce the contest period OR pay everyone a flat amount OR shelf the contest for Q1'20.</p>	 <p>Provide relief to new hires by increasing the new hire period and keeping them at target.</p>














Source: Axtria, Inc.

2.2 Medium-Term Impact

The World Health Organization (WHO) has declared COVID-19 a global pandemic. It is unknown when the world will get back to normal. However, sales executives will need to live with

the domino effects of social distancing, travel limitations, and disruptions that the sales force undergoes. **Table 4** is a list of impacts sales executives will need to strategize and consider for the medium-term (next 2-3 quarters).

Table 4: Medium-Term Impacts and Things To Consider

Medium-Term Impact On						
 <p>Goal attainments due to zero rep activity.</p>	 <p>Plan design impact on activity-based metrics and outcome-based measures.</p>	 <p>Sales Contest/SPIFs planned due to expected competitor launch.</p>	 <p>Zero or reduced rep detailing due to social distancing and travel restrictions.</p>	 <p>Supply chain disruptions and impact on reported sales and shipment delays in cases of rare diseases. Currently, supply chain issues not being felt for patented branded drugs or biologics. Companies in the long run will seek different sources for active pharmaceutical ingredients (APIs) rather than relying on China.</p>	 <p>Impact on the patient population.</p>	
Things To Consider						
 <p>Provide relief in goals due to no rep-HCP interactions. Look at forecast relief.</p>	 <p>Consider paying reps at target or <math><x\%></math> of target if normal rep activity is unable to commence.</p>	 <p>Avoid activity-based metrics or other forms of performance constructs. Pay at target OR MBOs emphasizing on disease state and education OR Use National Indexing, i.e., territory performance is indexed against the nation.</p>	 <p>Hold off on any face-to-face selling contest for the next 1-2 quarters.</p>	 <p>Incentivize on telesales.</p>	 <p>Patient potential, especially for rare disease, will be impacted due to people who lost lives.</p>	 <p>Account for missing data, trend breaks.</p>

Source: Atria, Inc.



2.3 Long-Term Impact

Virologists expect that the pandemic is close to peaking in the US, Europe, and a number of Asian countries, though at an uneven progression across and within countries. The sales force is going to be heavily impacted due to social distancing, travel limitations, and to a certain extent, forced behavioral changes. The economic effects from these business closures

and lockdown policies may also create a significantly deep recession, which can generate longer-term effects and cause sales force strategy and associated IC changes. Even without long-term strategy changes, there will be IC operational impacts to manage. **Table 5** is a list of impacts that sales executives need to strategize and consider in the long-term (next 12-24 months).

Table 5: Long-Term Impacts and Things To Consider

Long-Term Impact On					
 <p>Selection of baseline period and any data smoothing required to nullify the impact of sales impact due to a drop of sales rep activity.</p>	 <p>Annual performance, year-end awards, and elite club winner assessment due to patchy data.</p>	 <p>Eligibility for annual plan components.</p>	 <p>Performance rating used for merit increase.</p>	 <p>Supply chain disruption and impact on reported sales and shipment delays in cases of rare diseases. Currently, supply chain issues not being felt for patented branded drugs or biologics. Companies in the long run will seek different sources for APIs rather than relying on China.</p>	
Things To Consider					
 <p>Quota baseline could be based on an average of multiple quarters or could exclude impacted quarters.</p>	 <p>Past pandemics and/or natural disasters can be used to understand drug volume trends over time to aid modeling.</p>	 <p>Missing data and/or trend breaks due to supply chain disruption can be smoothed for IC purposes.</p>	 <p>Year-end awards could be measured and rewarded in shorter intervals throughout the year.</p>	 <p>For eligibility, consider time in role instead of time in territory.</p>	 <p>For merit reviews, consider alternative information beyond sales performance, such as compliance and business planning.</p>

Source: Atria, Inc.

3. Concluding Remarks

This paper focused on the potential short-term, medium-term, and long-term effects from the coronavirus pandemic on pharma company IC. The outbreak of the coronavirus illustrates the inherent risks and uncertainties that are prevalent in the operation of complex and global business, as seen in the pharmaceutical industry. By their very nature, “black swan” events are difficult to anticipate by a business. The coronavirus pandemic will have varying effects on pharma company strategy and operations. The extent of these effects and changes made by pharma companies on their IC will depend on a range of factors, such as the following:

- Severity and length of the coronavirus pandemic.
- Public policies enacted to combat this outbreak and prevent the next one.
- Company sales, marketing, and managed markets/ market access strategy.
- Company portfolio of products and nature of competition within each market.
- Company culture and how this translates into the management philosophy of the sales force.
- Quality of data structures to support evidence-based IC .
- Quality of empirical analyses and platforms to ensure optimal changes in IC design necessary to support SFO outcomes and motivate the sales force to assist in achieving the company commercial strategy.

Each of the effects of and responses to the coronavirus pandemic on IC illustrates the need for companies to have strong data management structures and empirical systems/ platforms in place to act quickly to mitigate the effects of such events when they do occur. This means having detection systems that can quickly identify the existence of an IC problem, predict and measure the depth of effects, and then estimate the effect of implementing management control policies to mitigate the business impacts from such “black swan” events. The existence of these analytic processes and systems is crucial for the long-term success and stability of a pharma company. Having proper risk/uncertainty-mitigation controls in place, along with being prepared for the application of analytics to gather insight on the effects of such events, is essential to developing evidence-based countermeasures built into IC plans. Such plans will minimize adverse impacts on the sales force, business operations, and limit disruptions on patients and the healthcare systems served by pharma companies. Axtria stands excellently positioned with the expertise and experience in developing strategic and tactical thinking, applying a wide range of solution-oriented analytics and technology-based platforms, executing commercial operations plans, and providing efficient data management systems to help pharma companies navigate through these challenging and uncertain times.

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