



Comparing SPM and ICM?

Alan V. Marrott

A General Overview:

Those familiar with compensation management are hearing two terms that are often used to describe similar business objectives. The term most software vendors, and experts alike, are adopting is Sales Performance Management (SPM). Less in vogue, but a term that has been used for some time, is Incentive Compensation Management (ICM). Although both describe approaches for managing sales activities, their objectives and benefits are very different.

SPM, as the term suggests, orients its focus around managing a sales team's performance. Most company executives expect that the inclusion of sales objectives in corporate strategies, and setting minimum performance standards or quotas for meeting sales objectives, will have a direct impact on a company's success. An SPM application is designed to track a sales person's performance against those standards or objectives. Many SPM vendors advertise that their products help align sales performance with corporate strategy. Interestingly, the carrot they dangle to attract prospective customers is the claim that by tracking general sales performance, they can also solve the underlying challenge of managing compensation incentives. In reality, however, this is a very different and far more challenging task.

ICM, on the other hand, is based on the premise that true sales performance management, and effectively aligning sales objectives with corporate strategies, are only possible if the complex process of incentive management is correctly accomplished and leveraged. Its primary focus is the accurate collection and management of detailed revenue and sales data needed to correctly calculate and evaluate incentive compensation. Where SPM tends to address the tracking aspect of the compensation management process, ICM is designed to address compensation at its most critical point: accurate and cost-effective payouts.

Although most market analysts use the terms ICM and SPM interchangeably, the terms denote different areas of focus and address rather distinct business objectives.

Sales Performance Management:

If, during a search for an automated solution, you encounter the term "On-Demand Solution" in conjunction with incentive compensation management, you are likely speaking with someone affiliated with SPM. On demand denotes a delivery approach with at least some of its origins in the television or cable industry. Most of us are familiar with on-demand movies, for example. The attraction we have to on-demand products and services comes from our desire to obtain something simply and quickly, without the assistance of a third party.

The question that should be asked when considering an on-demand solution for any business process is: “Can we automate the complexities of our process without expert assistance and a full understanding of what we need to achieve?” On demand suggests that the end consumer is able to order and use a product without relying on an outside entity to facilitate the process. In some instances this is possible. Contact management tools are an example of an on-demand solution for businesses. A sales rep can subscribe or order the application, and without the seller’s help, load in contacts and corresponding information into the tool. As the sales rep collects the information over time, he can use the tool to more effectively manage a large amount of information. The value of this type of product is reflected in the number of companies willing to pay upwards of \$1000 per sales rep per year to help sales teams better manage their sales opportunities.

In over 30 years of developing and managing billing and compensation management systems, however, I have yet to encounter a company that could effectively leverage a purely on-demand solution to cover these processes. This is not to suggest that some compensation plans and product catalogues are too complex for such a solution; but the ultimate solution always requires additional activities such as data collection and formatting, process analysis, unique reporting capabilities, etc.

As a case in point, I personally know one company that decided to purchase an on-demand solution to calculate its sales commissions. Over a year later, the company is still using spreadsheets because it was never able to collect and format the input data in a way that was compatible with the on-demand system. There were simply far too many transaction variables and combinations for the system to accommodate.

Experience with these complexities underscores the risk that comes with a decision to change business processes simply due to technological limitations. I have seen a number of businesses that allowed technology to dictate business processes, only to realize that merely simplifying their business was unexpectedly and unnecessarily costly. While some businesses can justify using on-demand tools to support some business processes like bookkeeping, payroll, etc., very few have such simple compensation processes to allow for true on-demand solutions.

Spreadsheets:

Anyone who is at all familiar with the full spectrum of compensation management realizes that simplicity and speed are not synonymous with the dynamics and complexities found in this particular business process. There are valid reasons why the vast majority of businesses have held off automating the incentive management portion of their financial processes. As cumbersome and inaccurate as they often are, spreadsheets continue to be used by over ninety percent of companies that would benefit from automating their commissioning process. The primary reason for this is that

spreadsheets allow a compensation manager to make adjustments and modify sales plans without involving IT departments. They can be modified as often as desired without much delay.

The downside to spreadsheets, however, is that no one can be completely confident that they are accurate; and every user knows they're not auditable. This opens the door to costly mistakes, and more destructive, fraudulent behavior. Before WorldCom's accounting scandal led to its demise, Alorie Gilbert, a staff writer at CNET News.com reported that WorldCom was already dealing with another bookkeeping shenanigan: "As much as \$4 Million in phony sales commissions was pocketed by more than a dozen employees." With the Sarbanes-Oxley legislation now in place, and stock holders demanding greater transparency and accountability, more and more companies are realizing that the utility of spreadsheets for managing financial processes is rapidly diminishing.

Incentive Compensation Management:

A useful and effective ICM tool, on the other hand, must accommodate every variable and consideration used to determine the value and cost of a sale. Its purpose is to account for every element that plays into a sale's contribution to a company's bottom line. This allows those tasked to manage a company's financial stability to better determine the compensation that should be associated with that contribution. In order to do this, it is often necessary to gather and format data from several uniquely structured data sources. It must also preserve the integrity of the process by preventing unauthorized, unauditable or undetected modifications to the data.

As we learned from the examples of Enron, WorldCom and others, it may not be the desire of business managers to bring true transparency to a company's financial processes. We also learned, however, that companies that choose to hide or ignore relevant business facts often create their own demise and financially cripple those people associated with them. Honest, successful businesses leaders understand that accurate information is essential to a company's success.

Unlike SPM, ICM applications aren't designed to allow sales people to enter their own data and thereby project success and often create unrealistic expectations. Most, if not all, on-demand SPM tools use this as a basis for their products. They are specifically designed to allow a sales person to enter sales opportunities into a sales funnel and project the likelihood of those opportunities closing. While this can be useful, it can also undermine the credibility of the compensation management tool. It may even lead to increased shadow accounting rather than eliminate it, because the sales staff set expectations for themselves that don't materialize. To be credible and trusted, an automated compensation process must consider only those pieces of data or information that reflect revenue to a company and the costs associated with it.

Effective compensation management requires accuracy and transparency to all who use it and feel impact from it. Too often, SPM vendors simplify transaction data, sales hierarchies or plans to the point that the individual elements of a commission calculation are lost. It is not hard to imagine how demotivating it would be for a sales person to accept challenging sales targets, to meet those targets, and then not receive the appropriate compensation. This happens more often than one would expect. According to The Gartner Group, “Sales organizations that fail to execute reporting and payments of incentive commissions in a timely and accurate manner will decrease sales force productivity by 20 percent because of lost selling time, reduced motivation and the absence of organizational trust.” It also reported that manual processes often produce error rates of between 3 and 8 percent. Our experience with clients revealed that the error rate could be as high as 85 percent. As these errors impact multiple departments (such as sales, finance and human resources), a \$100 error can cost a company thousands of dollars to correct.

Why Select Glocent Over an SPM Tool?

As Glocent has worked to establish itself as the world’s premiere ICM solution, it has encountered unexpected misinformation from both SPM vendors and compensation experts alike. Some vendors hope to pass themselves off as suitable ICM solution providers. They have spent tens of millions of dollars marketing that message. Due to the noise these vendors have made, experts and potential customers have been influenced to believe their pitch. Only customers who find themselves frustrated by the limitations of SPM tools and Glocent users seem to truly understand the difference.

A prospective consumer of such a software application must take the “Buyer Beware” approach to heart. Don’t be fooled by those who try to tell you what you need. Don’t believe that what you have come to understand to be a complex process is suddenly going to be as effective because a software vendor claims that it is all about simplification. Ask yourself if it makes sense to be able to use an On-Demand solution for a task that requires the collection and management of most of the detailed data that comprise your sales transactions.

After spending over 25 years in the IT industry, I reached to conclusion that change is one of the greatest fears faced by a company. Company executives aren’t inclined to spend money for a new tool; but they are quick to invest in something that improves business and reduces the pain that comes with managing it. In order to bring comfort and confidence to a prospective customer, I determined that the best way we could persuade a decision maker that change could be beneficial was to put my money where my mouth is. No sales pitch, no proof of concept and no string of positive endorsements have the same calming effect that monetary guarantees bring.

Rarely will a software company offer a full satisfaction or 100 percent money back guarantee. That's due to the well-known history of software projects seldom coming in under budget and within the expected delivery schedule. That is why Glocent offers a 200 percent money-back guarantee to its customers. We want to make a clear statement that we deliver what we promise or it hurts us more than it does our clients. Fortunately for us and them, no one has ever felt the need to take us up on our offer.

Summary:

Although SPM and ICM tools both address legitimate business needs, they should not be used to address similar business objectives. More important, a business must appreciate that incentives are compromised when they prove unreliable. No incentive program will be more effective than the credibility and integrity behind it.

It would be insightful to question why over 90 percent of businesses who should automate their incentive management processing are still using spreadsheets. I suspect that most people would answer that it is because making the change would be too uncomfortable. My experience suggests that this only one element of a greater concern.

Companies have utilized automated solutions to manage order processing, inventory, billing and financial activities for years. For that to happen, change was necessary. So why is it that incentive compensation management lags so far behind? It would come as a surprise to many people that it is because it is actually the most complex financial process to manage. Since I have discovered that most people refuse to believe that, let me share some actual experiences that help support my claim.

While financial practices like payroll have rules and a variety of factors that impact how an employee is paid, the rules and factors rarely change. Taxes and deductions are usually set once an employee is set up in the system and rarely change over the course of a year. What one employee earns has no impact on what another is paid. The process is relatively self contained. Managing incentives is a much more dynamic process.

We have clients that change their commission rules, product offerings and hierarchies on a weekly basis. The transactional activities that are then evaluated by these rules and conditions may number in the millions. Couple these considerations with other clients that may track a sale in one currency, evaluate the value of that sale in a second currency, and then pay commissions on the sale in yet a third currency you begin to see why incentive management is the most complex of all financial processes. We also need to consider that, compared to payroll, incentives can fluctuate dramatically over time, and as a variable cost that drives revenues, they require focused attention in order to properly leverage them. If a business wants to deploy a software solution that will create immediate savings while driving revenues higher, Glocent is that solution.