



COMPARING SPM AND ICM

Those familiar with compensation management are hearing two terms used to describe similar business objectives. Most software vendors, industry experts and market analysts alike, are adopting sales performance management (SPM). Less in vogue is incentive compensation management (ICM). Although both describe approaches for managing sales activities, their objectives and benefits are widely different, where reality says they denote different areas of focus and address rather distinct business objectives. **Alan Marrot** explains.

Companies have utilised automated solutions to manage order processing, inventory, billing and financial activities for years. For that to happen, change was necessary. So why is incentive compensation management lagging 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.

Our experience shows that changing commission rules, product offerings and hierarchies on a weekly basis and transactional activities that are then evaluated by these rules and conditions may number in the millions. These considerations 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. Consider this, ... compared to payroll, incentives can fluctuate dramatically over time, and as a variable cost that drives revenues, incentives require focused attention in order to be properly leveraged.

SPM manages a sales team's performance where 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.

ICM is based on the fact that true sales performance management and aligning sales objectives with corporate strategies are only possible if the complex process of incentive management is correctly accomplished and leveraged. The accurate collection and management of detailed revenue and sales data is needed to correctly calculate and evaluate incentive compensation.

Sales performance management:

If 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. The attraction we have to on-demand products and services comes from our desire to

obtain something simply and quickly, without a third party.

The question when considering any On-demand solution for any business process is: 'Can we automate the complexities without expert assistance and understanding what is to be achieved?' On-demand suggests that the consumer is able to order and use a product without an outside entity to facilitate the process.

Contact management tools are on-demand solutions where loading contacts and corresponding information is easy, where time allows the tool to effectively collect and manage large amounts of information. The value of this product is reflected in the number willing to pay upwards of \$1000 per sales rep per year to help sales teams better manage their sales opportunities. The ultimate solution always requires additional activities such as data collection, formatting, analysis and reporting as most solutions are not able to collect and format the input data in a way that is compatible as there are simply far too many transaction variables and combinations for the system to accommodate.

Experience with these complexities underscores the risk with a decision to change business processes, simply due to technological limitations, then to realise that merely simplifying business was unexpectedly and unnecessarily costly.

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 unauthorised, un-auditable or undetected modifications to the data. 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 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 materialise. 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 are impacted by 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 organisations 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 organisational trust.' It also reported that manual processes often produce error rates of between three and eight 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 ICM over an SPM tool?

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 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 the 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.

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 programme 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. One would suspect that most people would answer that it is because making the change would be too uncomfortable. My experience suggests that this is only one element of a greater concern.

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