INCENTIVE COMPENSATION MANAGEMENT

A FINANCE LEADER'S GUIDE TO ICM

INSIGHTS FROM SALES COMP DATA BRING THE STRATEGIC VALUE FINANCE NEEDS

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ICM - IT'S MORE THAN REVENUE

For years, companies have tapped into increasingly sophisticated generations of incentive compensation management (ICM) solutions to maximize the performance of their revenue-producing teams. And the results have spoken for themselves: ICM platforms that combine thoughtful, nuanced, and agile comp plans with powerful automation tools have directly contributed to sustainable growth as companies seize opportunities and compete more effectively.

The tactical advantages, of course, are well-known and well-documented. ICM solutions help carefully direct sales efforts and initiatives to the company's most important targets, products, regions, and business segments. They reduce over-payments to sales reps, improve sales productivity, reduce employee turnover, and create a motivated sales force. They also improve the speed and accuracy of the sales operations team and enhance its ability to adjust plans and activities to reflect changing business conditions.

ICM systems typically revolve around revenue. But finance professionals know that a tactical, revenue-centric focus risks overlooking the important strategic value that arises from deeper analytics around the sources of costs and expenses associated with revenue. ICM offers more value than just optimizing revenue and streamlining sales operations. It can create timely, high-value insights into the strategic underlying costs associated with that revenue.

WHAT FINANCE WANTS TO KNOW:

THE TOTAL COMMISSION ON A SALE

The effectiveness of any comp plan shouldn't be measured solely by increases in top-line revenue. After all, poorly designed or loosely controlled discounting policies can yield impressive revenue gains while creating unsustainably low margins.

Other Questions that Finance Wants to Answer

How effective are the new comp plans at driving sales of more profitable products?

Why are we over budget on commissions expense despite being under budget on revenue?

Has the company received payment for sales contracts before the commission is disbursed to the rep?

What's the projected payable based on current pipeline?

What's the ROI for an additional SPIF?

The ultimate metric for most companies, of course, is profitability. In fact, The Alexander Group argues that sales comp plans should be structured around profitability, not revenue. Whether it's gross profit dollars or gross profit margins, finance (not sales) needs a clear understanding of all of the expenses related to each sale. They need to accurately measure the cost to acquire a customer and compare it against the value received from that customer.

At a granular level, finance wants to know: What is the commission on a specific sale? But simple questions sometimes don't have easily obtainable, simple answers. For instance, can you get a fast and consistent answer to this question: How much will the sales rep receive for a multiyear deal with a new customer for the company's newest product – a deal that meets a threshold for annual recurring revenue, includes a services bundle, and pushes the sales rep to 110% of quarterly quota? An ICM solution can present just such information to allow finance to accurately measure customer acquisition costs.

WHAT FINANCE WANTS TO KNOW:

FORECASTED COMMISSIONS

Too often, finance only has visibility into commissions that have already been paid, but they don't have an accurate picture of what commissions they can expect based on deals that are in the pipeline. Companies with long sales cycles, 90 days or more, should have a very accurate picture of all commissions expected to be paid in the quarter because all the deals that will close are in the sales pipeline and they can forecast the probability of closed won and the expected commissions payout.

In the aggregate, weeks before the period ends, you can determine the cost of your commissions for that period. This enables finance to anticipate cash outlays and make confident forecasts of the cost of commissions. The result is much more effective financial planning and analysis across the operation and less risk.

WHAT FINANCE WANTS TO KNOW:

ASC-606 COMPLIANCE

Under the accounting standard ASC 606, finance must comply with a significantly more complex reporting framework for revenue and expense recognition. ASC 606 represents a major shift in how many businesses handle all aspects of recognizing revenue and expenses – including commissions.

For finance, commissions represent a particularly thorny challenge – especially if the business derives revenue from subscription-based contracts with customers. You must recognize expenses across the lifetime of the sales contract and as the customer's deployment milestones are reached. Renewals and extensions add further complexities. Despite the fact that many companies pay sales commissions up front, they are required to recognize that expense over a longer period of time.

An ICM platform should smoothly handle the complexities of ASC 606, help you recognize and report revenue and commissions, and ensure you maintain compliance.

A QUICK LOOK AT THE ROI OF ICM

COSTS

License Fees: You'll likely pay a "per seat/ per month" fee. You will typically see a lower fee as you increase the number of users or extend the length of the initial contract term.

Implementation fees: Some low-end systems provide less expensive "guided implementations" where you drive the configuration. Other more feature-rich ICM systems benefit from expert vendor assistance for a long-term payoff in usability, customization, and automation.

SAVINGS

Overpayments: Gartner estimates that 3-8% of total incentive comp dollars are wasted in overpayments. Carefully managing and tracking these payments can bring massive savings.

Comp-Team Productivity: Sales Operations, IT, and Finance teams create large internal costs when manually processing and managing ICM. These are typically low-value tasks that they often find frustrating – which can lead to expensive and disruptive turnover.

Sales-Team Productivity: When sales teams mistrust comp calculations and payments, they can spend inordinate amounts of time playing "shadow accountant" – instead of selling. Some estimates suggest reps spend 5% of their time simply tracking their commissions, creating a drag on your top line. With an accurate and timely platform and targeted, agile comp plans, ICM can produce meaningful revenue increases.

Audit Costs: With ICM, the costs of audits, compliance reviews, and reporting are lower thanks to automated processes that are governed by best practices. CFOs get greater visibility and greater predictability while adhering to ASC-606 provisions and other regulatory frameworks.

Conclusion

When companies implement incentive compensation management (ICM) systems, they rightly expect and require significant returns on those investments, in the form of stronger revenue streams that are quickly and tightly aligned with the organization's strategic goals and initiatives.

However, it's equally important to recognize (and maximize) the impact of ICM on the expense side of the ledger. ICM not only streamlines tactical execution (in the form of speed, accuracy, and productivity), it also creates high-value insights that can reshape revenue-producing activities. From clearer understanding of commission costs to ASC-606 compliance, finance can increasingly rely on ICM to support its financial and accounting teams in managing both revenue and expenses to support future growth.

About Performio

Performio is the only Incentive Compensation Management provider that drives business performance with a product built to handle complexity, a team of dedicated experts, and a proven track record of long-term global success. Perfomio is a modern, enterprise-grade software and mobile app used to manage and automate incentive compensation. We address complexity through our unique no-code architecture, native data transformation capabilities, purpose-built plan components, and automated workflows. But because software alone will not drive business performance, we do incentive comp right, with experts who will guide you as you adapt your incentive compensation program as your business changes. You can count on Performio as a reliable, focused, and safe partner who has delivered customer success for over 15 years.

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