

Session Seven:

***Sales Compensation
Administration:
To Outsource or Not to
Outsource***

September 6, 2006

explore
excellencesm

Welcome to Buck Consultants 2006 Webcast Educational Series

- Buck Consultants' webcast series features insights and updates on important compensation and business topics
- Today's session is the seventh of our series
- Please save the date for our next webcast:

September 27th at 1:00PM EST

Annual Physical for your Sales Compensation Program

Today's speakers

Craig Ulrich

Principal, Sales Management Consulting Leader

(212) 330-1358

Craig.Ulrich@buckconsultants.com

Paul Reiman

Senior Consultant, Sales Management Consulting

(312) 846-3806

Paul.Reiman@buckconsultants.com

Please direct your questions via e-mail to:

yolanda.vanegas@buckconsultants.com

Agenda

- Background on Sales Compensation Outsourcing
 - Survey Findings
- Outsourcing Evaluation Framework and Process
- Case Examples
- Tips to Make a Good Decision
- Wrap up / Q&A

What is the evolution of sales compensation administration?

Historically

- Basic technology, thus basic expectations on process efficiency and transparency
- Modest level of transaction/process data
- Run occasional ad-hoc reports when requested
- Full sales ownership over compensation

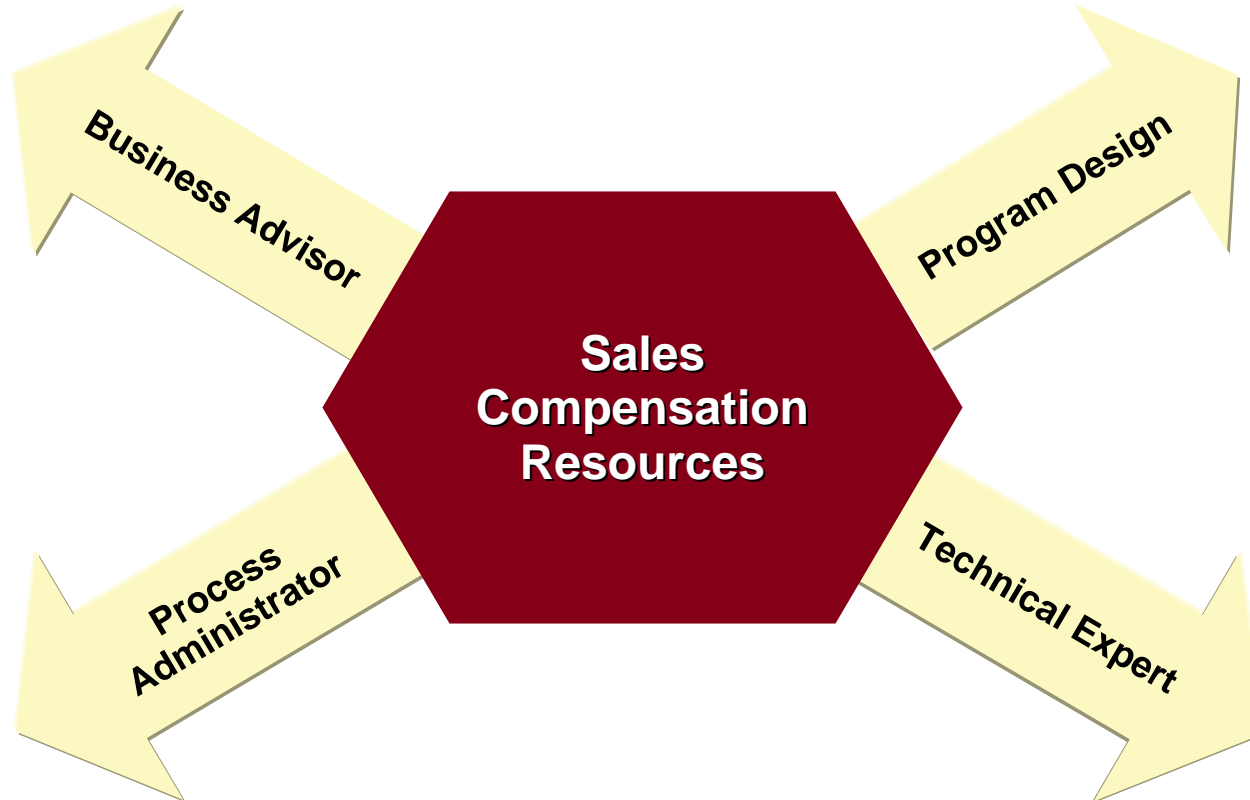
Plan administration performed “part time” by sales operations or Finance staff

Today's Environment

- Robust technology, creating higher expectations about “what is be possible”
- Voluminous amounts of data
- Complex and continuous reporting needs
- Multiple owners of sales compensation

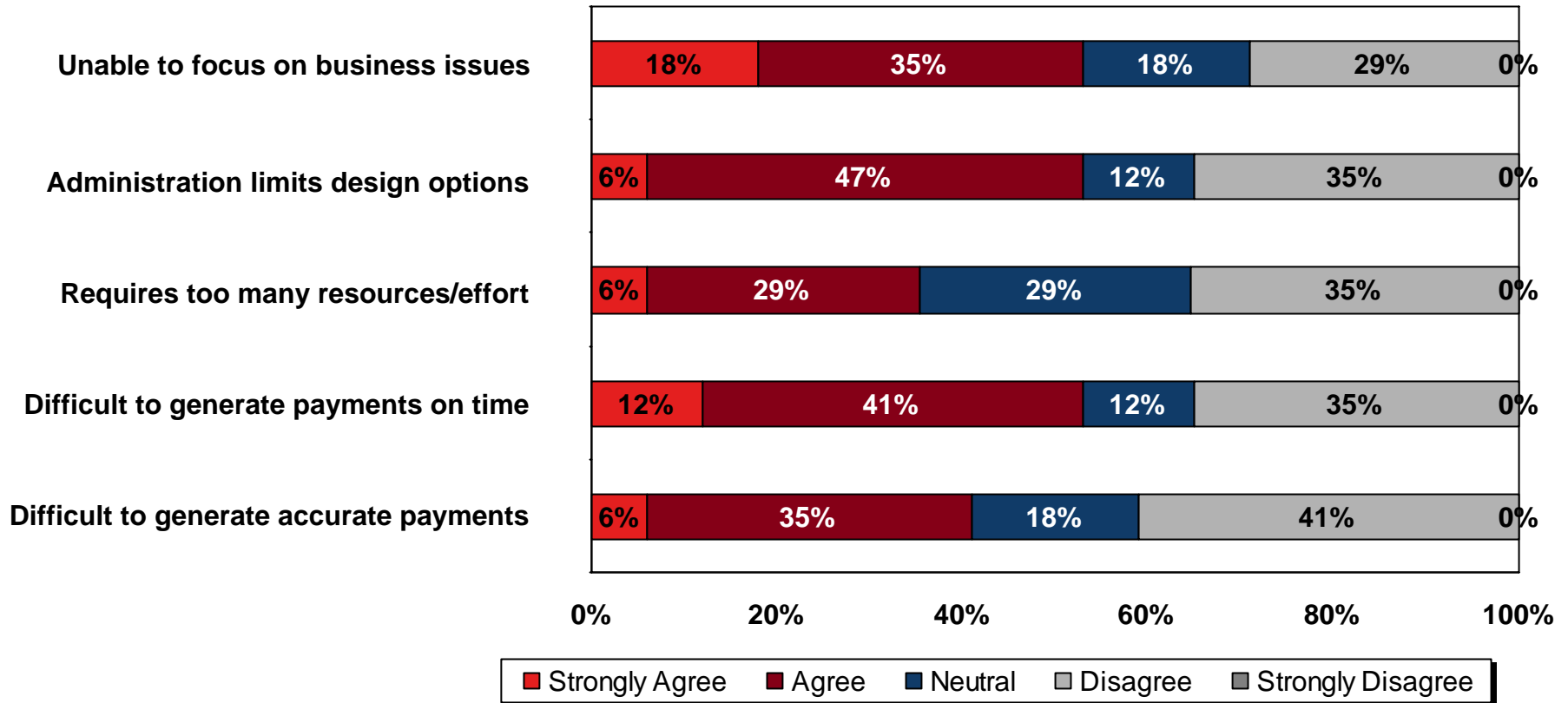
Plan administration becomes a full time job... for multiple resources

As a result, sales compensation professionals often find themselves with conflicting demands

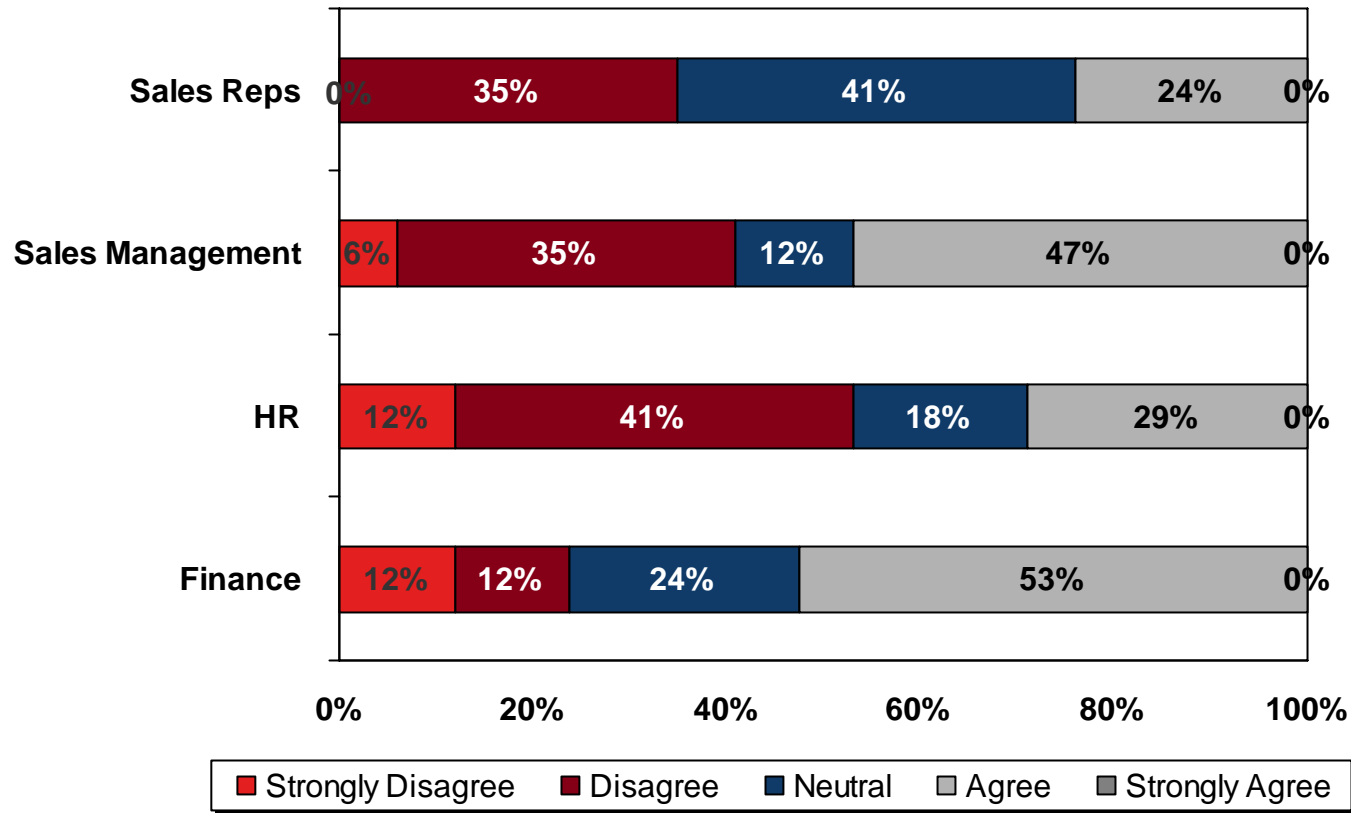


Varying business needs and budget constraints prevent specialization, leading to inefficiency and/or under-performance

Survey Findings: Administration Challenges



Survey Findings: Satisfaction w/ Plan Administration



Survey Findings: Build / Buy / Rent

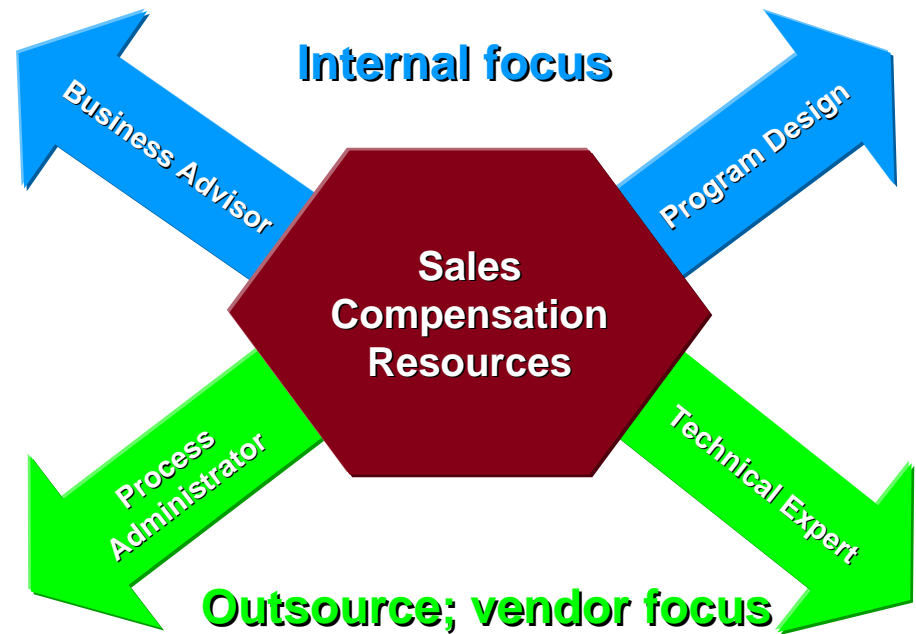
Type of System	Percent of Responses*	Observed Trends
Specialized Incentive Software/Module of HRIS System	30%	<ul style="list-style-type: none"> • Less concern reported about timeliness and accuracy • Finance appears to be most satisfied stakeholder with this type of system
Home-Grown System	53%	<ul style="list-style-type: none"> • Mixed results between responses, reflecting varied experiences with home-grown systems
Excel	65%	<ul style="list-style-type: none"> • Generates greater concerns, less satisfaction, and a belief that outsourcing can help

**Numbers do not sum to 100% due to multiple responses*

Due to these challenges and conflicting demands on sales compensation professionals, many companies consider outsourcing sales compensation administration

Why Outsource?

- Focus on strategic priorities
- To better manage sales compensation and administration expenses
- Overcome technology challenges
- Supplement limited expertise
- Improve processes and results (e.g., accuracy of payments)
- Provide better reporting



Outsourcing: What it is... and what it isn't

- Outsourcing **is**
 - Involving resources external to the company
 - Extending the enterprise to incorporate more focused expertise
- Outsourcing **is not** (or is not always)
 - The same as “offshoring”
 - “Giving up” on internal people or processes
 - Always associated with layoffs and downsizing

Outsourcing Evaluation Framework

Is outsourcing appropriate for us?

Ask the 4 Ws...

1. **W**hy Outsource? Identify specific business problems
2. **W**hat to Outsource? Focus on the root cause of the problem
3. **W**hat do we Expect? Articulate return on investment expectations
4. **W**ho can Partner with Us? Research available outsourcing providers with expertise in your outsourcing need

1. Why Outsource?

- Current practices are not **efficient** and have too high a cost
 - Staff resources (HR, Sales Ops, IT)
 - Technology costs (software, hardware)
 - Overpayment (poor tracking, one-sided dispute resolution)
- Current practices are not **effective** and leave opportunities on the table
 - Focus of executive and sales management
 - Focus of sales reps
 - Cannibalizes design efforts

2. What to Outsource?

Determine the root causes of the efficiency loss and/or ineffectiveness...

Inefficiency (and thus Ineffectiveness)

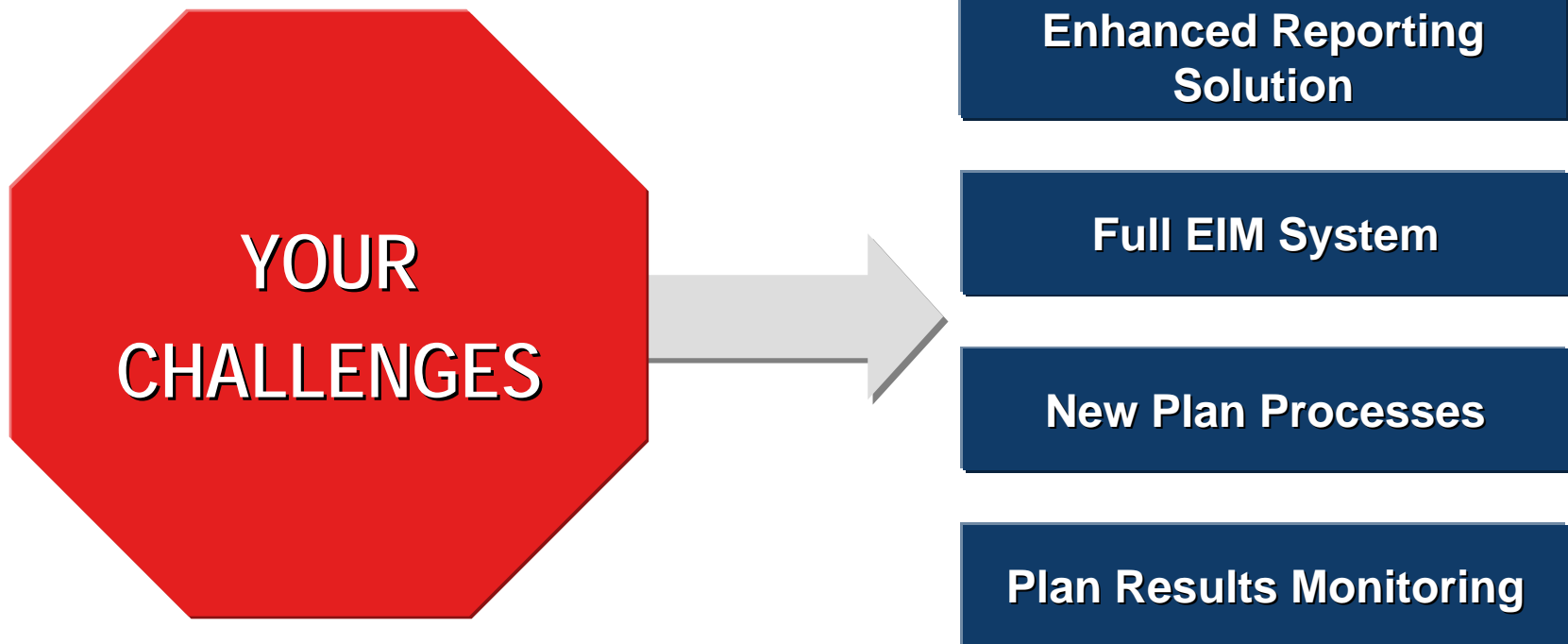
- Lack of automation for payout calculation resulting in late payments
- Outdated reporting systems; or no reporting
- Plan proliferation
- Dramatic increase in “transactions”

Ineffectiveness

- Unclear ownership over sales compensation; multiple parties but no owners
- “Part-time” resources not able to perform all tasks required
- Inflexible automation systems
- Limited sales compensation expertise unable to spend time advising management

2. **What to Outsource?** *continued*

... and determine how the root causes might be solved by considering an outsourcing solution:



3. **What do we Expect?**

- Investments in outsourcing to solve *efficiency* problems should come with observable cost savings over a defined timeline
- Investments in outsourcing to solve *effectiveness* problems should improve ROI over a longer timeline

It is critical to be specific and realistic in your cost savings and ROI expectations

4. **Who can Partner with Us?**

- Consultants
- Software Providers
- Outsourcing Companies
- Note: As the sales compensation administration market is relatively young, your outsourcing solution may need to involve more than one provider (or a “process integrator” who aggregates for you)

4. **Who can Partner with Us?** *continued*

Evaluation Factors

- Business Problem Expertise
- Partnership Qualities (culture, service orientation)
- Solution Flexibility – avoid hidden costs
- Cost

The Case of Missing Information

- \$2 billion food products distributor
- 600 sales reps
- Custom-built, client/server incentive management system with limited, summary compensation statements
- 2 full-time sales compensation administrators

“We had a high degree of confidence in our compensation system – it generated accurate payments, and IT had it tuned so well that our administrators could manage it with minimal support. However, we found ourselves constantly pulling custom reports of individual rep performance and transaction details to prove that our commission checks were accurate. It essentially has taken our comp administrators and turned them into report generators. How can we eliminate that drain, and create time to focus on the impact of the plan and designing next year’s plans?”

The Case of Missing Information

CLOSED!

- Implemented vendor reporting package that provided online access and drill-down capability to sales reps
- Virtually eliminated commission accuracy disputes
- Reduced number of “manual pulls” substantially, replacing 2,000 person-hours of labor (over \$80k in cost savings)
- Re-allocated staff hours to reviewing plan results, which identified a plan “leak” that was distorting pay-for-performance
- Reporting engine quickly becoming a “go-to” source for sales reps researching customer history

Focused investments in reporting can free up staff resources and enhance participant satisfaction

The Case of the Unknown Problem

- Fast growing, \$600 million software company
- 270 sales reps
- Vendor EIM package, supplemented with own reporting and flexible query-writing package
- 1 “Sales Finance” manager and 1 “HR Services” manager, each considering sales compensation a “minor part” of their job

“We implemented the new commission system 3 years ago, and it seems to be working great. When we installed our own advanced reporting module on top of it, we also eliminated concerns about accuracy and access to details. For some reason, though, we can’t seem to satisfy sales management—they’re always complaining about the sales comp plans. The executive team says that commission expenses are increasing at twice the rate of revenues! For the past two years we’ve modified our commission schedules to try to combat this, but that doesn’t seem to be doing the trick. How can we make the executive team feel better about our compensation payments?”

The Case of the Unknown Problem

CLOSED!

- Partnered with a firm to audit the compensation program results every quarter through a thorough investigation of the plan performance
- Utilized the partner's dashboard of key sales incentive plan effectiveness metrics, supplemented with manager interviews
- Identified source of commission inflation (double-crediting)
- Established a dedicated, expert resource for responding to plan effectiveness inquiries

Supplementing internal resources with external expertise can lead to a more effective analysis of plan results

The Case of Spiraling Costs

- Historically successful but struggling, \$4.6 billion communications products company
- 1,900 sales reps
- Access databases and Excel spreadsheets fed by “flat file” feeds from their financial system
- 65 sales administrators and managers world-wide

*“We’ve been asked to reduce our departmental operating budget by 35%, though we’ve been told some restructuring capital expense is acceptable to get things under control. Most of our administrators are ready to leave anyway, since they’re so frustrated working with our outdated tools. Executives see that we have 65 people doing this, and figure we can just get rid of 25 of them to help make our numbers. But there’s no way we can process our payments with our systems on that few people. Plus, we hardly have time to **think** about the plans as it is, we’re so consumed in calculating commissions and generating reports. How can we get this under control”*

The Case of Spiraling Costs

CLOSED!

- Committed to “full scope” sales compensation administration outsourcing – plan calculation, processing, reporting, and monitoring
- Reduced full-time headcount to 8 (some former employees assumed by outsourcing company), re-aligned to a “business partner” model focused on problem solving
- Reduced operating expenses substantially, with full investment payback in 2 years
- Created certainty around plan administration expenses with a more scalable infrastructure

Comprehensive outsourcing can generate a substantial return on investment and create a more stable operating environment

Wrap up / Key Take-Away Points

- Focus on the value of solving the business problem... and the extent to which an outsourcing solution can solve that specific problem
- “Outsourcing” may not mean the same thing to all internal constituents. Be clear on what form of assistance is needed to solve the problem
- Avoid just buying software and expecting your problems to be solved

Thank You !

Questions?

email now to:

yolanda.vanegas@buckconsultants.com

Craig Ulrich

(212) 330-1358

Craig.Ulrich@buckconsultants.com

Paul Reiman

(312) 846-3806

Paul.Reiman@buckconsultants.com