



VENTANA RESEARCH



Sales Compensation Management

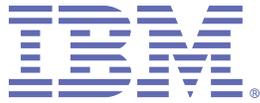
Improving the Impact of Pay and Incentives
to Maximize Revenue

White Paper



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June 2014



Ventana Research performed this research to determine attitudes toward and utilization of sales compensation management. This document is based on our research and analysis of information provided by organizations that we deemed qualified to participate in this benchmark research.

This research was designed to investigate sales compensation management practices and needs and potential benefits. It is not intended for use outside of this context and does not imply that organizations are guaranteed success by relying on these results to improve sales compensation management. Moreover, gaining the most benefit from sales compensation management requires an assessment of your organization's unique needs to identify gaps and priorities for improvement.

The full report with detailed analysis is available for purchase. We can provide detailed insights on this benchmark research and advice on its relevance through the Ventana On-Demand research and advisory service. Assessment Services based on this benchmark research also are available.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with and knowledge of sales compensation management, and that the analysis and conclusions are entirely our own.

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Executive Summary

To maximize their effectiveness across the enterprise, from top management through finance and operations to the sales representatives on the front line, sales organizations must integrate their people and processes tightly with all available information and the needed technology. A key enabler of sales success is to motivate sales personnel through compensation that recognizes their accomplishments and rewards them appropriately and promptly. However, few sales organizations take a comprehensive approach to sales compensation management.

Ventana Research undertook this benchmark research to determine the attitudes, requirements and future plans of those who engage in sales compensation management.



Every organization needs a well-developed compensation strategy that utilizes incentives and rewards to motivate sales talent as fully as possible. In constructing and refining this strategy it is essential to have access to all relevant information about quotas, territories, forecasts, bookings and accounting. Successive waves of technology investments – in sales force automation (SFA), enterprise resource planning (ERP) and customer relationship management (CRM), for example – have yielded only limited improvements in the impact of sales compensation. This is in large measure because these broadly focused

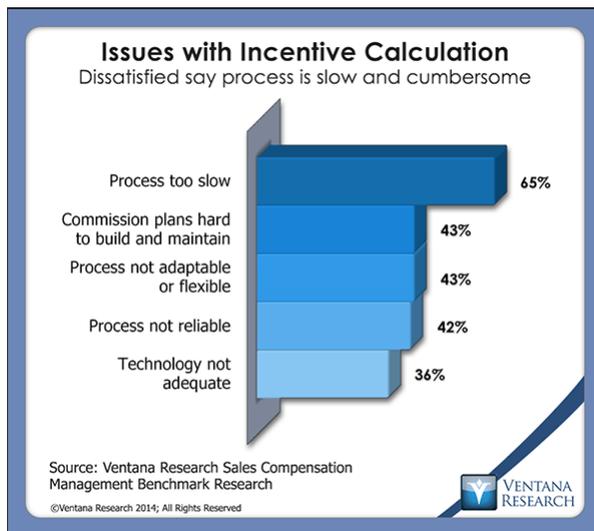
technology tools aren't dedicated to compensation, whereas newer tools now available are designed with compensation management in mind.

Ventana Research undertook this benchmark research to determine the attitudes, requirements and future plans of those who engage in sales compensation management and to identify the best practices of organizations that are most mature in it. We set out to examine both the commonalities and the qualities specific to major industry sectors and across sizes of organizations. We considered how organizations manage sales compensation, issues they encounter in the process and the information technology they use.



Three-fourths of the organizations participating in this research said that compensation is very important to the success of a sales organization. Moreover, two-thirds said that managing commissions and compensation is very important to success. Yet the research finds that only 38 percent can calculate and compile sales commissions within two weeks after a reporting period. Indeed, one-third – almost as many – take three weeks to a month to do it, and one in five take between one month and one quarter. The research also shows that completing the cycle sooner enhances satisfaction with the process of calculating incentives; three-fourths of organizations that finish in less than a week are satisfied with their process, compared to half that take a week to a month. That’s because an efficient process of calculating sales compensation facilitates communicating with sales personnel about their earnings and paying them for their achievements.

Overall, half (52%) of organizations are satisfied with the current process used to calculate incentives, while 41 percent are not satisfied.



Among the latter group most said it’s because the process is too slow (65%). Large percentages also said commission plans are too hard to build and maintain, the process is not adaptable to change, the process is not reliable and their technology is not adequate.

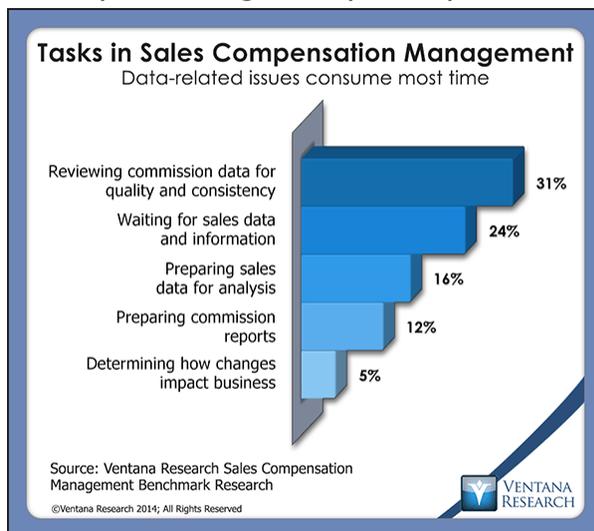
Timeliness matters in other aspects of the sales compensation process as well. For example, three out of four research participants said quota management is important or very important. Two in five (39%)

organizations review progress toward quotas and potential commissions daily or weekly, while slightly fewer (32%) review progress monthly. More than half of organizations that review it monthly or more often are satisfied with the process they use to calculate incentives, while two-thirds of those that review it annually are not satisfied with their current process.



Because calculation of incentives depends on numbers, sales data must be complete and accurate to make it possible to reward sales performance fairly and promptly. Most participants in this research (72%) said they are confident or very confident in the quality of information being generated by their sales compensation process. It is understandable that only 21 percent of those just somewhat confident in their information quality are satisfied with their calculation process.

After the basics of commissions and compensation, the largest percentages of participants said that analytics (55%) and reporting (49%) are very important



(49%) are very important components. These are critical for understanding and communicating information, and here the research finds data issues impacting the compensation process. People spend most of their time not in analysis or reporting but in three preliminary areas: reviewing commission data for quality and consistency (31%), waiting for sales data and information (24%) and preparing sales data for analysis (16%). Only 12 percent spend the most time in preparing

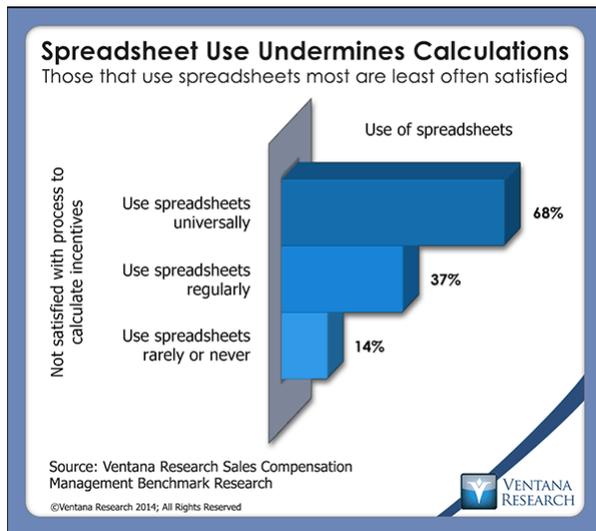
commission reports or documents for presentation and distribution, and even fewer (10%) focus most on analysis, trying to determine how changes impact current business or the root causes of situations related to commissions. Spending so much time on data-related preliminary tasks can delay communications about and payments of compensation as well as limit strategic analysis.

To ensure they can generate needed information quickly, most organizations need software that can streamline the process. The research shows that most realize this. More than half (52%) use an application other than spreadsheets or generic planning tools to manage sales compensation, as do three-fourths of very large organizations. However, many fewer (31%) use an application designed to manage sales compensation as their primary software; nearly as many (30%) use spreadsheets. Only 11 percent now use SFA or CRM to manage sales compensation. Three times as many (75%) of those that use a dedicated sales compensation application



are satisfied with their process used to calculate incentives as are those that use spreadsheets (26%). Similarly, 40 percent of them are very confident in the quality of the information generated by the process, as opposed to 12 percent of those that primarily use spreadsheets.

Ventana Research regularly warns businesses against using spreadsheets for enterprise processes that involve more than a few people. Like other research we have conducted, this finds evidence to support that caution. Only about one-third (37%) of those that use spreadsheets universally or regularly to manage and track compensation and commissions said that the spreadsheets they use are accurate and timely. Three out of five (61%) said that reliance on



spreadsheets makes it difficult to manage sales commissions efficiently. Many more organizations that use spreadsheets rarely are confident (39%) in the quality of sales compensation information than are those that use them universally (18%). We also find a correlation between the extent of spreadsheet use and satisfaction with the process used to calculate incentives: Less use promotes more satisfaction.

In addition, organizations that use a dedicated sales compensation application reported more often than those using any other type of application that they have no impediments that are motivating them to consider further investment. Nearly half of those primarily using spreadsheets (48%) said they have such impediments, compared to one-third of all participants. The four most common impediments are inconsistent execution in sales (reported by 61%), lack of sales effectiveness (48%), limited alignment of sales and strategy (45%) and scattered sales information (41%).

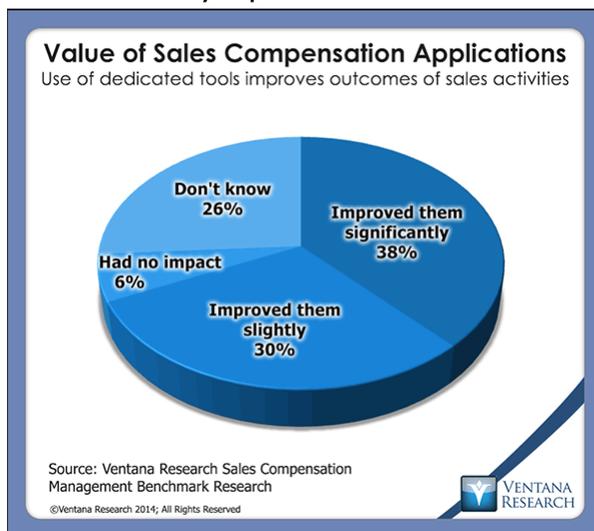
Despite the prevalence of impediments that prompt thoughts of new investments, however, most organizations (58%) do not plan to change their vendor for sales compensation management software in the next 12 to 18 months; only 5 percent are sure they will change,



and 14 percent are considering change but are undecided. Two-thirds of those considering change are motivated by the desire to address impediments in their sales organizations. The factors obstructing the adoption of more capable software are lack of a budget (for 42%), low priority (38%), a business case that is not strong enough (37%), lack of resources (37%) and lack of awareness (28%). Thus while many participants see a need for better tools, the research suggests that others in their organizations may not.

The sales operations group is at the center of sales compensation management and typically is tasked with assessing and selecting appropriate software. Nearly half (49%) of participants said they trust sales operations completely to identify and select sales compensation applications, nearly twice as many as completely trust their IT department (27%) to do that task. More broadly, three out of four said they are confident (36%) or very confident (40%) in their organization's ability to select and use sales compensation applications. The research finds a correlation between processing commissions efficiently and confidence in the ability to select and use compensation applications: Only about half of organizations that take longer than one week to process their sales commissions have such confidence.

We advise organizations seeking to improve sales compensation management, particularly by investing in more capable technology, to identify operational and business benefits of doing so. The research



finds that several improvements of process and tools have helped organizations improve the outcomes of sales activities and processes. For example, more than half (57%) of those that process their commissions in less than a week have improved the outcomes of their sales organization. Two-thirds that use a dedicated sales compensation application have improved the outcomes of sales activities and processes significantly (38%) or slightly (30%).



Overall, the benefit most often achieved through application of sales compensation capabilities is aligning the sales force to business strategy and goals; this benefit was ranked first by 43 percent, much more than any other. After that, benefits most often ranked first or second were better management and tracking of the progress of product and sales initiatives (by 30%), improved communications to Sales on the status of compensation (26%) and improved auditing and compliance of sales forecasts to goals and targets (25%). All of these benefits are evidence of a better process that has positive effects on people and the larger organization.

Improving outcomes also requires metrics that are aligned to sales objectives. To measure overall sales performance organizations most often use quota attainment (65%), revenue attainment (63%) and customer revenue (51%). Each of these metrics can be tied to compensation, rewards and incentives. Organizations should make sure that sales compensation software under consideration facilitates creating, tracking and reporting on metrics. Asked about evaluation criteria for selecting such software, more than four out of five said usability, manageability and reliability (which includes efficient processing of commissions) are important or very important. Applying these criteria can help users in both the sales and IT functions and streamline the process of sales compensation by removing impediments and automating repetitive tasks.



Key Insights

This benchmark research yielded the following important general findings and key insights regarding sales compensation management. (We discuss performance levels in the Performance Index portion of the full research report; the actual questions asked in our survey are in an appendix to the research report. Specifics of organization sizes are in the appendix "About This Benchmark Research.")

Organizations are improving their management of sales compensation.

Sales compensation is very important to the success of a sales organization. Almost three-fourths (73%) of participants in this research agree with this assertion, while most of the rest (22%) said it is important. In our view, effective sales compensation requires a

Our Performance Index analysis places fewer than one in five (17%) organizations at the Innovative level, the highest of the four in our performance measurement hierarchy.

smoothly running process automated through technology to manage both data and the models used to calculate commissions. However, our Performance Index analysis finds most organizations laboring in both these aspects. Overall the analysis places fewer than one in five (17%) organizations at the Innovative level of performance, the highest of the four in our performance measurement hierarchy. Each succeeding lower level tallied a larger percentage; more than one-third (37%) rank at the lowest Tactical level of performance. In the four dimensions (People, Process, Information and Technology) by which we segment our analysis, organizations perform least well in

Process (more than half rank at the lowest Tactical level) and Technology (the largest percentage in this dimension, 39%, are Tactical). They perform best in Information (with three in 10 at the Innovative level) and People (26% Innovative).

The largest organizations manage sales compensation best, our analysis shows. When measured by number of employees, the very large have the greatest percentage (26%) at the Innovative level, significantly more than other sizes of organizations. The findings are



similar when size is measured by annual revenue: Nearly half (47%) of the very large are Innovative, three times as many as any other size. We conclude that the largest organizations, which have the most sales people to manage, have more resources than others and have invested them to automate this process. Analysis by industry sector reveals that companies in manufacturing (17%) and services (16%) have the largest percentages at the Innovative level, although one-third or more of each are Tactical. Overall the research shows that all industries have significant room for improvement in sales compensation, as do all but the very largest companies.

Processing sales compensation can be tedious and time-consuming.

Processing sales commissions accurately and promptly can be a challenge. Organizations must extract details on booked deals from their sales force automation (SFA) application, conform scheduled sales compensation to the status of receivables, apply the proper commission rates and determine any special incentives as well as progress toward quotas. The research finds that only 38 percent of organizations can calculate and compile sales commissions within two weeks after a reporting period; one-third take three weeks to a month to do it, and one in five take one month to one quarter. Further analysis reveals that those completing the cycle sooner are more satisfied with the process they use to calculate incentives than those that take longer; three-fourths of organizations that finish in less than a week are satisfied with their process, compared to half that take a week to a month. Overall only half (52%) are satisfied with the current process used to calculate incentives; large (63%) and very large (62%) companies are most often satisfied. Among the two in five (41%) organizations not satisfied with the process, most said it is because the process is too slow (65%), commission plans are too hard to build and maintain (43%), the process is not adaptable to change (43%), the process is not reliable (42%) and their technology is not adequate (36%). An ineffective process of calculating sales compensation delays communications to sales personnel and paying them for their achievements.

An ineffective process of calculating sales compensation delays communications to sales personnel and paying them for their achievements.





Sales compensation is a complex set of activities.

Although managing commissions and compensation are seen as the most significant aspects of sales compensation (very important to 64% and 57% of research participants, respectively), other components also are important to the process. Analytics (55%), reporting (49%) and goals and objectives (46%) are cited next-most often as very important components. Three out of four said quota management is important or very important; two in five (39%) review progress toward quotas and potential commissions daily or weekly, while slightly fewer (32%) review progress monthly. We encourage frequent review of this information, which appropriate technology can make easy. More than half of organizations that review it monthly or more often are satisfied with the process they use to calculate incentives, while two-thirds (64%) of those that review it on an annual basis are not satisfied with their current process. A well-planned process assisted by capable technology is essential for managing sales compensation effectively.

Data processing tasks take time away from analyzing sales compensation.

Among the several components of the sales compensation process, organizations spend most of their time not in analysis or reporting but in three preliminary areas.

Most participants in this research have confidence in the quality of information being generated by their sales compensation process: More than one-fourth (27%) said they are very confident, and the largest percentage (45%) are confident. Predictably, 82 percent of organizations that are very confident in its quality also are satisfied with their current process to calculate incentives; only 21 percent of those somewhat confident in their information quality are satisfied with their calculation process.

There are issues with the sales compensation process, though. The research shows that among the several components of the process, organizations spend most of their time not in analysis or reporting but in three preliminary areas: reviewing commission data for quality and consistency (31%), waiting for sales data and information (24%) and preparing sales data for analysis (16%). Only 12 percent spend the most time in preparing commission reports or



documents for presentation and distribution, and even fewer (10%) focus most on analysis, trying to determine how changes impact current business or what the root causes are of situations related to commissions. Efficient sales compensation requires reliable data for calculations. However, spending so much time on data-related preliminary tasks can delay communications about and payments of compensation. Organizations should take steps to ensure they can generate needed information quickly, which is likely to necessitate software that can streamline the process.

Dedicated applications make sales compensation more efficient.

Software applications dedicated to sales compensation management have been around for years, and our research shows that organizations using them operate more efficiently and get better results than those that do not. More than half of participants either

As their primary software to manage sales compensation the largest percentage (31%) of organizations use an application dedicated to it; about as many use spreadsheets (30%).

have used a dedicated application (as opposed to spreadsheets or generic planning tools) to manage sales compensation for more than a year (40%) or began to use one during the last 12 months (12%). Another one-fourth are planning to adopt one; only 17 percent don't intend to use a dedicated application. Three-fourths of very large organizations (74%) have one. As their primary software to manage sales compensation, the largest percentage (31%) of organizations use an application dedicated to sales compensation; about as many use spreadsheets (30%), and one in five use a sales force automation or customer relationship management system or a custom-built application (11% each).

A majority (59%) of organizations that use a dedicated application for sales compensation are satisfied with their process to calculate incentives, while almost the same percentage (58%) of those that do not use a dedication application are not satisfied with the process. In addition, organizations that use a dedicated sales compensation application reported having no impediments that are motivating them



to consider further investments more often than those using any other type of application.

Those most commonly using these applications are the front-line sales team (in 49% of organizations that use a dedicated application), front-line sales managers (47%) and midlevel sales managers (45%). Looking into the future, organizations plan to deploy dedicated sales compensation software within two years to the same roles: 19 percent to the front-line sales team and 17 percent each to front-line sales managers, midlevel sales managers and management.

Using spreadsheets can undermine efficiency in sales compensation.

Despite the prevalence of dedicated applications for sales compensation management, the research shows that many organizations use

86% of organizations that rarely use spreadsheets are satisfied with their process to calculate incentives, while only one-third that use them universally are satisfied with their process.

spreadsheets universally (29%) or regularly (42%) to manage and track compensation and commissions. Slightly more than one-third (37%) said that the spreadsheets they use are accurate and timely. However, 43 percent said they are accurate but not always timely, and 11 percent said the spreadsheets are timely but not accurate. Three out of five (61%) said that reliance on spreadsheets makes it difficult to manage sales commissions efficiently. In enterprise processes such as this, spreadsheet reliance can create issues in the accuracy and consistency of data. Thus we were not surprised to find that a large percentage (86%) of those organizations

that rarely use spreadsheets are satisfied with their process to calculate incentives, while only one-third (32%) of those that use them universally are satisfied with their process. Similarly, when asked about confidence in the quality of information, many more organizations that use spreadsheets rarely are confident (39%) than are those that use them universally (18%).

The findings of this research should deter organizations from employing these desktop tools for this critical enterprise function. A comparison between the use of spreadsheets and that of dedicated



applications for sales compensation buttresses this view: Three times as many (75%) organizations using dedicated sales compensation are satisfied with their process to calculate incentives as are those using spreadsheets (26%).

Impediments to investing in sales compensation are prevalent.

The research shows that more than one-third (34%) of sales organizations have impediments that motivate management to consider further investments in sales compensation. By number of employees, midsize organizations have impediments most often (53%) and large ones least often (72%); considered by annual revenue, in which percentages skewed downward, small companies (55%) most often have impediments and midsize ones (69%) least often. The four most common impediments are inconsistent execution in sales (for 61% of participants), lack of sales effectiveness (48%), limited alignment of sales and strategy (45%) and scattered sales information (41%). Understandably, organizations without impediments are more often satisfied with their current process (65%) than those that have impediments (43%). The issues most often obstructing investment in new technology for sales compensation are no budget (42%), low priority (38%), a business case that is not strong enough (37%), lack of resources (37%) and lack of awareness (28%). Having no budget and resources most troubles large organizations while low priority is the main barrier in midsize organizations. Organizations must overcome these impediments to manage sales compensation effectively.

The research shows that more than one-third of sales organizations have impediments that motivate management to consider further investments in sales compensation.





Effective sales compensation improves outcomes.

The benefit most often achieved through application of sales compensation capabilities is aligning the sales force to business strategy and goals, ranked first by 43 percent, much more than any other.



The research finds that use of a dedicated sales compensation application has helped two-thirds of organizations improve the outcomes of sales activities and processes significantly (38%) or slightly (30%). More than half (57%) of organizations that process their commissions in less than a week using dedicated sales compensation have improved the outcomes of their sales organization. Overall the benefit most often achieved through application of sales compensation capabilities is aligning the sales force to business strategy and goals, ranked first by 43 percent, much more than any other. After that, benefits most often ranked first or second were better

management and tracking of the progress of product and sales initiatives (by 30%), improved communications to Sales on the status of compensation (26%) and improved auditing and compliance of sales forecasts to goals and targets (25%). Aligning the sales force also topped the benefits participants hope to achieve, ranked first by 50 percent. In this forward-looking analysis of planned benefits increased revenue moved up to second from 15th, ranked first by 21 percent, and growing the business in net new customers went from ninth to fourth (first or second for 21%).

Using mobile technology improves sales compensation processes.

Sales people are often on the move and require quick access to information not only to work with customers but also to keep up with information about their own performance and compensation. Mobile technology (smartphones and tablets) can provide the information regardless of where people are. The research finds organizations lagging in providing access to and review of sales compensation on mobile devices: Fewer than one-third (29%) support it on both smartphones and tablets, and 6 percent support one type but not both. The majority either do not support mobile access now but intend to (31%) or have no plans to support it (26%). Yet two-thirds of organizations that support mobile devices said they have improved the



outcomes of sales activities and processes significantly. With respect to the type of devices, 69 percent have deployed and plan to deploy more smartphones and 61 percent tablets; of those planning deployment, equal numbers say they will deploy smartphones (12%) and tablets (13%).

The research shows that the use of mobile technology can improve the compensation process: For nearly half of organizations it has improved the accuracy and timeliness of sales commissions significantly (17%) or slightly (31%) and for more than half improved the utilization of communications about sales compensation significantly (30%) or slightly (26%). Mobile technology is of course already a common conduit for other sales applications such as sales force automation; extending it to sales compensation is a logical step.

Social collaboration has a natural role in sales compensation management.

Sales is a team activity; having support and information from across the function can increase efficiency and productivity. In addition to helping boost sales, collaboration plays just as important a role in helping sales managers and management engage with sales reps. The research shows that here, too, organizations have been slow to adopt these capabilities, but it finds indications that adoption will increase. The capabilities most plan to use or are evaluating are collaborative coaching (34%), earning badges and awards as part of achievements and quotas (27%), social recognition for contributing to or accomplishing tasks (26%; already in use by 33%), application sharing to discuss compensation (24%) and discussion forums (23%). Each of these technologies provides methods to engage people and improve sales effectiveness by connecting sales compensation to related processes.

Collaboration can help boost sales, but it plays just as important a role in helping sales managers and management engage with sales reps.



Sales of course generate revenue that helps the business operate and grow. The sales function thus is of critical importance to other departments and the enterprise. The most common source of funding for sales compensation applications is the general business budget (in



39% of organizations). In 19 percent the source is a shared service funded by business, and the same percentage use the general IT budget. In almost equal numbers, Finance (28%) and HR (29%) influence adoption of sales compensation software, but Finance most often sponsors and funds investment (31%). IT is most often not involved (33%) in adoption of this software. Finance also has the primary responsibility to calculate and process sales commissions in 43 percent of organizations, twice as often as the next most common function, sales operations (21%). Engaging business people in the finance and HR departments is a sound practice in adoption and use of sales compensation.

Selecting sales compensation software requires a comprehensive approach.

Sales compensation management is a collection of tasks performed by sales operations personnel and management interacting with finance professionals and individual sales reps. To be effective, software must meet the needs of these diverse users and the other systems that

Nearly half (49%) of research participants said they trust sales operations completely in identifying and selecting sales compensation applications.

require its information. Sales operations is at the center of sales compensation and typically is tasked with assessing and selecting the software. The research confirmed this: Asked how fully they trust several groups in identifying and selecting sales compensation applications, nearly half (49%) of participants said they trust sales operations completely, compared to about half as many (27%) who said they completely trust their IT department. Only one in four said they trust software vendors completely or even mostly.

Overall, three out of four said they are confident (36%) or very confident (40%) in their organization's ability to select and use sales compensation applications. Asked about evaluation criteria for selecting such software, more than four out of five said usability (87%), manageability (87%) and reliability (86%) are important or very important. Among key technology trends that we track, by far the largest percentage (84%) of participants said that analytics is critical for improving sales compensation; fewer than half cited cloud



computing (44%), collaboration (38%), big data (35%) or mobile technology (31%).

Processing commissions efficiently is one component of the reliability evaluation criterion for sales compensation software, which the largest percentage (61%) rated very important. The research finds a

To measure overall sales performance the metrics organizations most often use are quota attainment (65%), revenue attainment (63%) and customer revenue (51%).

correlation between this and confidence in using the software. Only about half of organizations that take longer than one week to process their sales commissions have confidence in their ability to select and use compensation applications, compared to almost three-quarters (74%) of those that process them in less than a week. In addition, organizations that have confidence in selecting and using the software most often have improved their outcomes from sales compensation (66%).

Improving outcomes also requires metrics that are aligned to sales objectives. To measure overall sales performance organizations most often use quota attainment (65%), revenue attainment (63%) and customer revenue (51%). Each of these metrics can be tied to compensation, rewards and incentives. Organizations should make sure that sales compensation software facilitates creating, tracking and reporting on metrics.

Organizations are slow to change their sales compensation management software.

Most research participants (58%) indicated that they do not plan to change their vendor for sales compensation management software in the next 12 to 18 months; only 5 percent are sure they will change, and 14 percent are considering change but are undecided. Nearly all (85%) small organizations by number of employees do not plan to change vendors; by annual revenue midsize ones (34%) most often will change or are considering change. Among participants planning or considering change, half said that they need to find ways to speed up the sales compensation process, and almost as many (47%) are not satisfied with the current product's functionality. Further analysis shows that 64 percent of organizations considering change are



motivated by the desire to address impediments in their sales organizations. The five top reasons for dissatisfaction with current sales compensation technology are that it does not support a sophisticated commission model; makes it difficult to audit and review commissions; is too complex to implement and maintain; is not scalable enough for current or future needs in processing commissions; and has inadequate reporting capabilities. Because of the vital role of compensation in acquiring and retaining top sales talent, we caution against staying with technology tools that impede planning and executing compensation policies.

Cloud computing is a popular approach for deploying sales compensation applications.

Organizations have found that cloud computing can streamline access to a variety of applications. In the case of sales compensation management we find increasing preference for this approach. The largest percentage (35%) of organizations use sales compensation on-premises today, but this method will see the least growth within the next year (23% plan to use it). Conversely, on-demand software as a service currently is used by one-quarter (23%), but more (34%) plan to use it. Even the finding that currently 21 percent have no deployment preference indicates that insistence on on-premises installation is fading. The broad availability of enterprise applications for sales force automation and customer relationship management based in the cloud is evident in the finding that three in five organizations said it is important (29%) or very important (33%) to automate integration of data from them with the sales compensation system. More organizations that use sales compensation in the cloud on demand (92%) than those that have it on-premises (72%) said it is importance to automate the integration of data. Determining where to deploy sales compensation applications should address the issue of integrating the data required to process information and provide it to sales and finance teams.



10 Best Practice Recommendations

This benchmark research reveals significant new insights into the evolving nature and use of sales compensation management processes and systems. For organizations considering how to optimize sales compensation, we offer the following recommendations.

1. Take on the challenges of processing sales commissions.

Processing sales commissions requires dealing with multiple data sources and systems. The research finds that only 38 percent of organizations can calculate and compile sales commissions within two weeks after a reporting period; one-third take three weeks to a month to do it, and one in five take one month to one quarter. It also shows that organizations completing the cycle sooner are more satisfied with the process they use to calculate incentives than others: Three-fourths of those that finish in less than a week are satisfied with their process, compared to half that take a week to a month. Therefore it is worth the effort to examine how you process commissions and take steps to speed it up if it takes more than a week. The most common complaints among those not satisfied with their process are that it is too slow, inflexible and unreliable; more than one-third (36%) said their technology is not adequate.

2. Address the full range of sales compensation activities.

As well as managing commissions, sales compensation has other important components. Significant percentages of research participants said analytics (55%), reporting (49%) and goals and objectives (46%) are very important; appropriate technology is necessary to handle all these well. Also three out of four said quota management is important or very important. We encourage frequent review of this information. Two in five (39%) review progress toward quotas and potential commissions daily or weekly, while slightly fewer (32%) review progress monthly. Our analysis shows that more than half of organizations that review it monthly or more often are satisfied with the process they use to calculate incentives, while two-thirds (64%) of those that review it on an annual basis are not satisfied with their current process. Putting effort into creating an efficient process will be repaid in managing sales compensation effectively and



motivating sales staff to produce strong results that benefit the business.

3. Automate data processing to focus on important aspects of sales compensation.

The research finds issues with data used for sales compensation management. In particular, people in most organizations spend the largest amounts of their time in reviewing commission data for quality and consistency, waiting for sales data and information and preparing sales data for analysis. Scattered sales information is a hindrance for 41 percent. These preliminary tasks consume time that could be used better for generating useful information, such as preparing commission reports or documents for presentation and distribution, which only 12 percent of participants spend the most time doing, or analyzing how changes impact current business or what the root causes are of situations related to commissions (10%). Spending so much time on data-related tasks can delay communications about and payments of compensation and thereby undermine sales staff's motivation and productivity. Consider implementing software that can streamline the process of getting data ready for business use.

4. Remove impediments to effective sales compensation.

The research shows that more than one-third (34%) of sales organizations have impediments that motivate management to consider further investments in sales compensation. The most common impediments are inconsistent execution in sales (for 61%), lack of sales effectiveness (48%) and limited alignment of sales and strategy (45%). All these problems damage sales and business performance and can justify investing in more capable software to manage sales compensation. However, the research also finds issues obstructing investment in such new technology, most often no budget (42%), low priority (38%), a business case that is not strong enough (37%), lack of resources (37%) and lack of awareness (28%). Therefore, make a concerted effort to educate potential users and decision-makers about the need for and benefits of better tools.



5. Use the right people and criteria to select sales compensation software.

To address deficits in resources and awareness of the need for more capable software, make sure to enlist people closely involved in the sales compensation process. The research shows that for more than two in five organizations these roles are the front-line sales team, front-line sales managers and midlevel sales managers. Among several groups that identify and select sales compensation applications, most participants (49%) said they trust sales operations completely, compared to about half as many (27%) who said they completely trust their IT department. We recommend making evaluation and selection a business-driven process. Use criteria that judge software on business grounds, especially usability, manageability and reliability (which includes efficient processing of commissions), which more than four out of five participants said are important or very important. Also make sure that products can deliver metrics you can use to measure sales performance and tie it to compensation. The most often named were quota attainment (65%), revenue attainment (63%) and customer revenue (51%).

6. Consider adopting dedicated sales compensation applications.

This is a well-established software category, and our research shows that organizations using applications dedicated to sales compensation management operate more efficiently and get better results than those that do not. As their primary software to manage sales compensation the largest percentage of organizations use an application dedicated to sales compensation (31%), and a majority of them are satisfied with their process to calculate incentives; conversely, a majority that don't use such applications are not satisfied with the process. Users of dedicated sales compensation applications also reported having no impediments that will necessitate further investments; use this as an argument for allocating funds for investment.

7. Link the choice of software to business outcomes of effective sales compensation management.

The research finds that use of a dedicated sales compensation application has helped two-thirds of organizations



improve the outcomes of their sales activities and processes to some extent. More than half (57%) of organizations that use dedicated sales compensation and process their commissions in less than a week have improved the outcomes of their sales organization significantly. Overall the benefit most often achieved through application of sales compensation capabilities is aligning the sales force to business strategy and goals, ranked first by 43 percent, much more than any other; that is a common impediment for other organizations. Other achieved benefits most often ranked first or second were better management and tracking of the progress of product and sales initiatives (by 30%), improved communications to sales people on the status of compensation (26%) and improved auditing and compliance of sales forecasts to goals and targets (25%). Look for software that can help your organization achieve improvements in both operations and attainment of goals.

8. Don't use spreadsheets to manage sales compensation.

A close second to dedicated applications as the primary software used to manage sales compensation is spreadsheets, for three out of 10 organizations. In addition many use spreadsheets universally (29%) or regularly (42%) to track compensation and commissions. Yet three out of five said that reliance on spreadsheets makes it difficult to manage sales commissions efficiently. More than twice as many participants that use spreadsheets rarely (39%) are confident in the quality of their sales compensation information as those that use them universally (18%). Heavy use of spreadsheets can create issues in the accuracy and consistency of data, which in this case can lead to disputes over compensation and ill will in the sales staff.

9. Add mobile access and social collaboration to improve sales compensation processes.

Mobile computing is natural fit for sales reps and managers and others who do important outside the office. However, this research finds that the majority of organizations either do not support access to and review of sales compensation on mobile devices now but intend to (31%) or have no plans to support it (26%). Yet two-thirds of organizations that do provide mobile support said they have improved significantly the outcomes of sales activities and processes. For nearly



half of organizations mobile access has improved the accuracy and timeliness of sales commissions. Collaboration, too, is natural for sales, which is a team activity. Here again the research shows that organizations have been slow to adopt tools and techniques, but it finds that adoption will increase. The social collaboration capabilities most plan to use or are evaluating are collaborative coaching (34%), earning badges and awards as part of achievements and quotas (27%), social recognition for contributing to or accomplishing tasks (26%; already in use by 33%), application sharing to discuss compensation (24%) and discussion forums (23%). Connecting sales compensation to new technologies such as mobility and collaboration can engage people and motivate them to improve sales effectiveness. It also can make your organization a more attractive place to work for younger sales talent used to having these tools.

10. Consider cloud deployment of sales compensation applications.

Improving sales compensation tools and processes can be more affordable and convenient through cloud-based options than on-premises. The research reveals a shift in preferences here. Although on-premises is used most today (by 35% of organizations), significantly fewer (23%) plan to choose it. The figures are reversed for on-demand software as a service, currently used by one-quarter (23%) but planned by 34 percent. In addition two types of systems that often share data with sales compensation applications – sales force automation and customer relationship management – are widely deployed in the cloud. Three out of five organizations said it is important or very important to automate integration of data from them with the sales compensation system. If you already have systems in the cloud this approach the benefits of it should be apparent; if you don't sales compensation management can be a good application to start with, as it offers easy access for the dispersed members of your sales team.



About Ventana Research

Ventana Research is the most authoritative and respected benchmark business technology research and advisory services firm. We provide insight and expert guidance on mainstream and disruptive technologies through a unique set of research-based offerings including benchmark research and technology evaluation assessments, education workshops and our research and advisory services, Ventana On-Demand. Our unparalleled understanding of the role of technology in optimizing business processes and performance and our best practices guidance are rooted in our rigorous research-based benchmarking of people, processes, information and technology across business and IT functions in every industry. This benchmark research plus our market coverage and in-depth knowledge of hundreds of technology providers means we can deliver education and expertise to our clients to increase the value they derive from technology investments while reducing time, cost and risk.

Ventana Research provides the most comprehensive analyst and research coverage in the industry; business and IT professionals worldwide are members of our community and benefit from Ventana Research's insights, as do highly regarded media and association partners around the globe. Our views and analyses are distributed daily through blogs and social media channels including [Twitter](#), [Facebook](#), [LinkedIn](#) and [Google+](#).

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Appendix: About This Benchmark Research

Methodology

Ventana Research conducted this benchmark research on the Web from November 2013 through February 2014. We solicited survey participation via email, our website and social media invitations. Email invitations were also sent by our media partners and by vendor sponsors.

We presented this explanation of the topic to participants prior to their entry into the survey:

Sales organizations achieve desired targets through the effective application of compensation and incentives. Motivating sales personnel through compensation should recognize their accomplishments and reward them appropriately and promptly. For many sales organizations the process of compensation and incentives requires significant effort and often is not well automated. This benchmark research is designed to understand how sales organizations design and implement compensation processes and the programs that motivate sales people to perform optimally.

The following promotion incited participants to complete the survey:

What's In It For You? Upon completion of the research, all qualified participants will receive a report on the findings of this benchmark research to support their organization's efforts, along with a \$5 Amazon.com gift certificate. In addition, all qualified participants will be entered into a drawing to win one of 25 benchmark research reports and a 30-minute consultation, a package valued at US\$1,495 or €1,232. Thank you for your participation!

Qualification

We designed the research to assess the use of and plans for spreadsheets across organizations and industries. Qualification to participate was presented to participants as follows:



The survey for this benchmark research is designed for executives and business and IT managers involved in managing sales compensation or the purchasing of technology for this area. Solution providers, software vendors, consultants, media and systems integrators may participate in the survey, but they are not eligible for incentives and their input will be used only if they meet the qualifications. Incentives are provided to qualified participants in the research and also are conditional on provision of accurate contact information including company name and company email address that can be used for fulfillment of incentives.

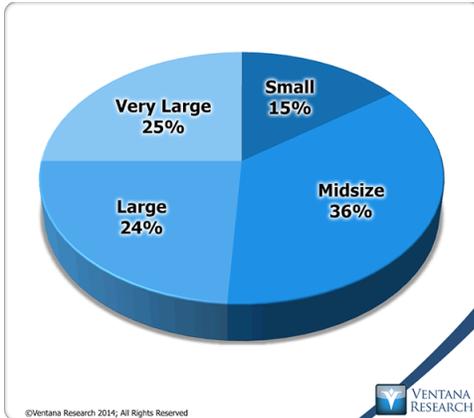
Further qualification evaluation of respondents was conducted as part of the research methodology and quality assurance processes. It entailed screening out responses from companies that are too small, questionnaires that were not materially complete, or those where the submission is from an inappropriate submitter or appears to be spurious.

Demographics

We designed the survey used for this research to be answered by executives and managers across a broad range of roles and titles working in organizations. We deemed 161 of those who clicked through to this survey to be qualified to have their answers analyzed in this research. In this report, the term “participants” refers to that group, and the charts in this section characterize various aspects of their demographics and qualifications.



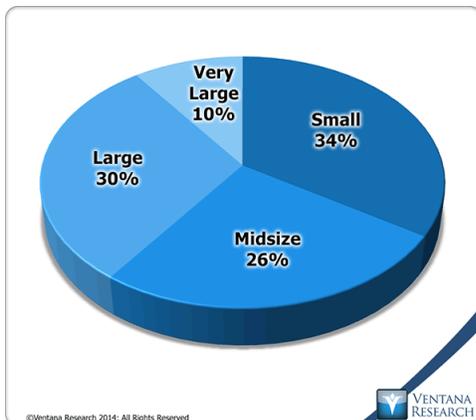
Company Size by Workforce



We require participants to indicate the size of their entire company. Our research repeatedly shows that size of organization, measured in this instance by employees, is a useful means of segmenting companies because it correlates with the complexity of processes, communications and organizational structure as well as the complexity of the IT infrastructure. In this research, participants represented a broad range of organization sizes in nearly equal numbers:

25 percent work in very large companies (having 10,000 or more employees), 24 percent work in large companies (with 1,000 to 9,999 employees), 36 percent work in midsize companies (with 100 to 999 employees), and 15 percent work in small companies (with fewer than 100 employees). This distribution is consistent with prior benchmark research and our research objectives and provides a suitably large sample from each size category.

Company Size by Annual Revenue

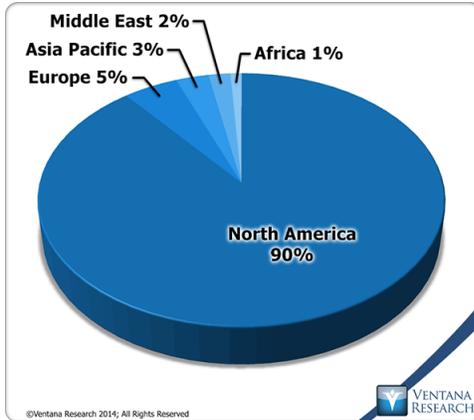


When we measured size by annual revenue, the distribution of categories shifted downward; fewer companies fell into the very large and midsize categories and more than twice as many are small. By this measure, 15 percent fewer are very large companies (having revenue of more than US\$10 billion), 6 percent more are large companies (having revenue from US\$500 million to US\$10 billion), 10 percent fewer are midsize companies (having revenue from US\$100 to US\$500 million), and 19 percent more are

small companies (with revenue of less than US\$100 million). This sort of redistribution is typical in our research projects when we measure by revenue instead of headcount.

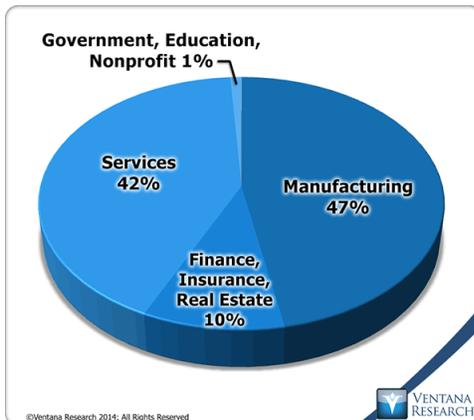


Geographic Distribution



Nine out of 10 participants were from companies located or headquartered in North America. Those based in Europe accounted for 5 percent, in Asia Pacific for another 3 percent and in the rest of the world for the other 3 percent. This result was in keeping with our expectations at the start of this investigation, since organizations participating in our research most often are headquartered in North America. However, many of these are global organizations operating worldwide.

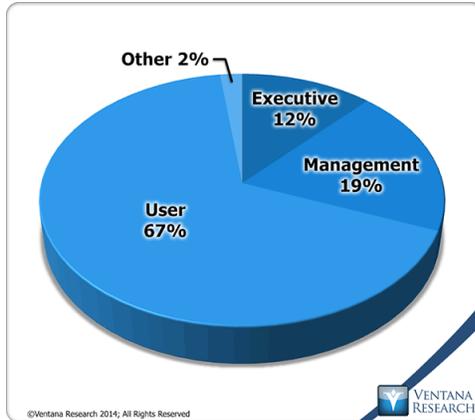
Industry



The companies of the participants in this benchmark research represented a range of industries, which we have categorized into four general categories as shown below. Companies in manufacturing and those that provide services accounted for 89 percent of the total. Those in finance, insurance and real estate accounted for 10 percent. Government, education and nonprofits, which are less sales-oriented than the others, accounted for the balance.

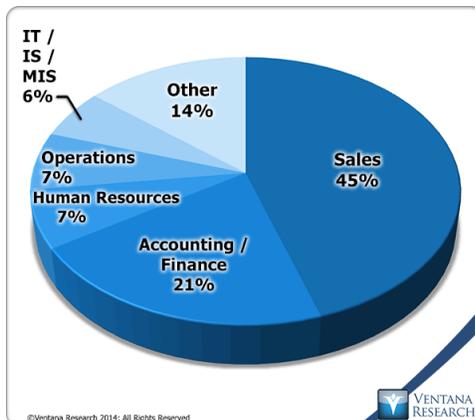


Job Title



We asked participants to choose from among 14 titles the one that best describes theirs. We sorted these responses into four categories: executives, management, users and others. Two out of three identified themselves as having titles that we categorize as users, a grouping that includes director (21%), senior manager or manager (32%), analyst (9%) and staff (4%). About one in eight are executives; the most of them (6%) are CFOs. Nearly one-fifth are management, by which we mean vice presidents. Others, in this case consultants, accounted for the balance. We concluded after analysis that this response set provided a meaningfully broad distribution of job titles.

Role by Functional Area



We asked participants to identify their functional area of responsibility as well. This enabled us to identify differences between participants who have differing roles in the organization. Predictably the largest group by far (45%) is in the sales function; another one-fifth work in finance or accounting, and 14 percent work in HR or operations. Another 10 titles, none with more than 3 percent of the total, comprised the Other category.