

Best Practices for Modeling Sales Compensation

Incentive compensation plan modeling gives companies the ability and confidence to respond promptly to market opportunities by reducing the risk of change and increasing the accuracy of variable compensation planning, budgeting and forecasting.

SALES COMPENSATION HAS become more complex and critical to a company's growth and success. Automating sales compensation not only increases accuracy and consistency, but also enables companies to create and manage change within their incentive compensation management process. Incentive compensation modeling enables finance, sales operations and compensation analysts to design, implement and adjust incentive programs rapidly and in a risk-free manner.

How Sales Compensation Management Modeling Works
Xactly Incent pulls data from a num-

ber of sources: order-entry systems, enterprise resource planning systems, human resources systems, and product SKU databases, to name but a few. Once this information is collected in a secure, SAS 70 Type II facility, Xactly Incent calculates all compensation based on predetermined hierarchies and rate tables. Ultimately, the software provides a data feed to Ceridian or ADP so that paychecks can be distributed.

Aside from the obvious benefits of better accuracy, consistency and reduced risk, one of the most powerful features of Xactly Incent is the creation of an underlying datamart -- complete with all order information and actual results -- that allows companies to model compensation plan changes, experiment with different tiers and rates, and run multiple "what-if" scenarios to determine various outcomes. Once they find a scenario that works, they can seamlessly promote it into their production environment at the touch of a button.

Informatica Overcomes Sales Compensation Challenges

Informatica Corporation, a Redwood City, Calif.-based provider of data integration solutions with 1,200 employees and operations in 17 countries, has recently discovered the power of sales compensation modeling. The company maintains eight types of com-

penetration plans and pays 300 people variably using incentive compensation -- in 14 different currencies. Because of this complexity, Informatica began searching for a scalable, rules-based solution to calculate and publish commission calculations.

"It takes us five days to close our books, so by day four, we need to know what our commission expense is," says Mark Pellowski, vice president of finance at Informatica. "In the past, it would be a very significant effort to figure out where we'd need to accrue. Xactly has given us the time to do the calculations at a very detailed level."

Pellowski was also concerned about spreadsheet calculation accuracy and consistency, as well as Sarbanes-Oxley controls.

"We had hundreds of spreadsheets -- one for every employee," he says. "This system was very error-prone and difficult to maintain. We had issues with how to publish the data and roll it up for reviews. There were also consistency issues. Most of the information was not documented very well. Now, everything is documented, and we have procedures that are clear and easy to follow."

The complexity of running multi-level compensation calculations was also a key challenge for Informatica.

"Some of our deals involve as many as 40 payees. If you make one change, and it has to ripple through all the dif-

ferent layers, it can get very complicated. Xactly allows us to determine how many payees are on each order so that we can determine if we have the right plan structure in place."

Informatica now has the flexibility to model different compensation scenarios, establish Special Performance Incentive Funds (SPIFs) for up-sell and cross-sell opportunities, and analyze the potential impact of off-cycle plan changes and proposed plans for the following year.

"We've purchased two companies in the last year, and we wanted to set some SPIFs around that," says Pellowski. "We now have improved reporting capabilities, and issue resolution is in a standardized format with good audit controls. Xactly gives us a lot better data to manage and analyze our sales team."

7 Best Practices for Modeling Incentive Compensation

Companies desiring to get the most out of sales compensation management modeling should adhere to these essential best practices.

- 1. Project incentive cash requirements in advance with forecast expense modeling.** A recent Business Finance Webcast poll indicates that nearly two-thirds of companies (63.6 percent) do not have an accurate idea of commission expense exposure (accrual) each quarter prior to close. Modeling allows companies to project different business volume scenarios using a combination of actual and projected order activity -- using the same rates, quotas and rules used in production -- to determine what their cash requirements will be.
- 2. Support micro- and macro-level plan modeling.** Companies need to be able to define a model at the most appropriate level to support needed analysis, capture data at the lowest level of granularity needed for precise decision-making (either per deal/payee

or at the total compensation expense level), and perform comparisons across dimensions. Macro-level modeling -- looking at the entire organization -- is equally important. Any modeled scenario must take into account the people involved, the positions they are in, the compensation plans they are on, and all the components that make up those plans.

3. Model your compensation plan scenarios in a secure, safe environment. Experimenting with changes (i.e., modeling) in a production environment is a very bad practice. Most companies realize this -- over 86 percent of Business Finance Webcast attendees surveyed are concerned about segregating modeled scenario data from live data. A separate "sandbox" environment means no performance impact on production, no commingling of live production data with modeled data, and secure promotion of modified plans.

4. Preview the impacts of planned organizational changes, manage scenarios, report and compare. A recent Business Finance Webcast poll indicates that 89 percent of companies have a difficult time creating, changing and comparing multiple compensation scenarios made up of different compensation plans, organizations and sales volumes. Modeling can reduce the risks associated with rolling out compensation plan changes by testing the potential results against your actual organization -- using actual payees -- and also by testing results against a new organization.

5. Support bi-directional data movement. One of the main problems with using spreadsheets to manage incentive compensation is that spreadsheets create more spreadsheets -- often each less accurate than the last. Modeling allows analysts to pull data from a production database to examine various scenarios based on up-to-date, accurate numbers. Once an optimal

scenario is promoted back into production, the real-world impact of the plan can be assessed and the model fine-tuned if necessary.

6. Respond to unexpected or unintended market changes. It's easy to underestimate the impact that unexpected events can have on sales compensation. Companies need to be able to respond to the needs of their sales force when significant changes occur. Indeed, 100 percent of Business Finance Webcast attendees surveyed agreed that modeling using projected or historical data to test the behavior of a new compensation plan is important. Modeling enables companies to respond to competitive pressure with promotions or SPIFs, and seamlessly absorb (and immediately motivate) new sales personnel following a merger or acquisition.

7. Model based on business volume trends. In a recent Business Finance Webcast poll, 97 percent of attendees surveyed agreed that it's important to have the flexibility to model hypothetical compensation plans using business volume trends. Xactly Incent allows companies to aggregate current transaction by customer, geography, product, order type, organization, and time dimensions, as well as create hypothetical future orders by applying growth rates to these aggregated data sets.

Better Accuracy, Improved Visibility

Sales compensation modeling is essential to drive accuracy and visibility of incentive compensation management. Think about walking into your CFO's office on the first day after the end of the month or quarter with an absolutely accurate accrual. You will look like a hero -- and with the advent of the on-demand software delivery model, getting started with sales compensation automation has never been easier or more affordable.

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Mark Pellowski
Vice President Finance
Informatica Corporation



Christopher W. Cabrera
CEO
Xactly

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For more information please contact
info@xactlycorp.com or call 866-GOXACTLY.