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Making Sense of Incentive Compensation

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✴ **Spark Series**

What is incentive compensation?

Motivate sellers to achieve peak performance.

Incentive compensation includes the extra rewards that sellers can earn on top of their base salaries. Compensation managers—often including members of the sales operations, finance, and human resources teams—can reward those incentives in several ways, including the following:

- Regular commissions

- Bonus cash, stock, or vacation time

- Promotions and pay raises

- Awards and recognition

Incentive compensation plans are designed to reward sellers as revenue increases. A well-structured plan can motivate your sales team to help the organization reach its financial goals. Because incentive compensation plans vary, they can be complex and challenging to create and manage. That's why unclear plans with ambiguous terms and slow payouts have the potential to become a disincentive, resulting in the following:

- **Sales inefficiencies:** Lost time and uncertainty on compensating sales teams take precious resources away from selling.

- **Dispute management:** If a seller's compensation isn't as expected, it can lead to a dispute that needs resolution.

- **Complex compensation terms:** Sellers struggle to understand and achieve incentives with multiple metrics and rules related to their earnings.

- **Unbalanced incentives:** Improperly aligned incentives fail to consider motivational factors outside of monetary rewards.

Sellers should be able to access, review, and accept their compensation plans. However, in the absence of transparent compensation, sellers are forced to investigate, search, and sometimes guess how much they'll make, wasting valuable time when they should be selling. Adding to the confusion, many firms still manage incentive plans using spreadsheets, which are prone to error.

14.2%
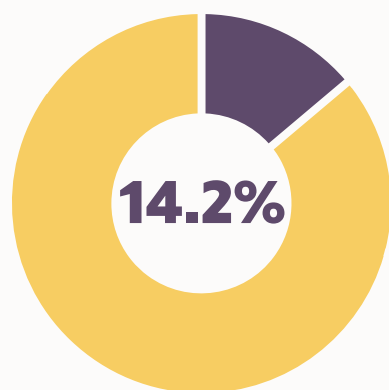
Only 14.2% of companies rate their compensation plans as "very effective."[1]

This guide will help you understand how incentive compensation plans can motivate and empower sellers to sell more and provide visibility to boost loyalty and reduce churn.

Why it matters today

65% of organizations believe that changing their approach to compensation is important over the next 12 to 18 months.[2]

As companies continue to manage evolving work-force expectations, it remains challenging to build reasonable compensation plans that sellers can achieve. Getting incentive compensation plans right can drive operational efficiency and grow revenue.

Incentive compensation is a pivotal element on sales teams, but too many companies still make decisions based on gut instinct instead of data. Sellers can tell when compensation plans aren't well-reasoned, hurting confidence. In comparison, fair plans motivate sellers to provide value for their customers.
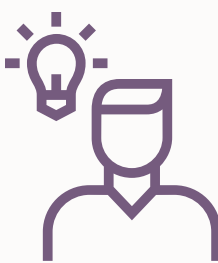
Customers look to sales reps for business ideas that help them achieve their goals. Motivating and rewarding sellers who continuously provide value helps build confidence in the organization. At the heart of every deal is trust. It is crucial that customers always feel like sellers have their best interests at heart—as opposed to selling anything just to get paid.

70%
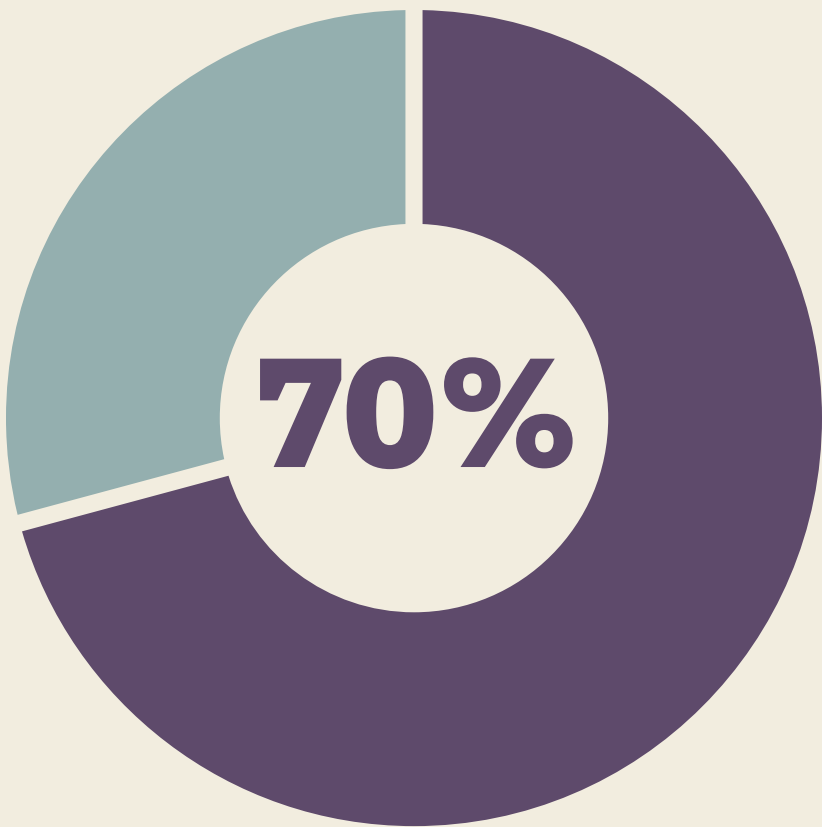
Compensation is the largest component of an organization's total labor costs,[3] accounting for up to 70% of those costs.[4]

At the business level, incentive compensation plans keep sellers focused on their jobs. This makes it more likely they'll work hard to meet quotas, win incentives, and help the company meet revenue goals while rewarding shareholders and building more confidence with customers.

The basics of incentive compensation

Strong sales organizations make it easy, fast, and efficient for sellers to access accurate compensation information.

The best incentive compensation plans are approached in the same context as territory and quota management. Considering all three as components of a sales performance management solution makes each one more effective. Patterns in performance-based incentives help compensation managers spot inefficiencies to help build and optimize quotas and territories to increase sellers' chances of success.

Your incentive compensation solution should have the following elements:

Scenario modeling

What-if scenarios keep incentive compensation plans flexible enough to shift according to business needs and market changes. Plus, you can gain valuable insight into how to motivate your team for top performance.

Complete compensation information

Compensation managers shouldn't need to hunt around to get the information they need to plan correctly. Make sure your solution integrates plans, credits, and payments across front- and back-office systems so that all necessary information is available in one place.

Complex workflow management

When an order goes through, make sure you have the tools needed to quickly pay the correct commission and accommodate any complexities related to the order itself, including tax laws, legal liabilities, and status.

Seller engagement

Generate more revenue with the right balance of cash and noncash incentives while keeping sellers engaged through progress tracking and gamification.

Estimated compensation

Encourage your sales team to keep opportunity data up to date. This helps prevent "shadow accounting"—in which sellers use their own spreadsheets to track progress and try to predict compensation—by providing complete compensation visibility as part of the quoting process.

Dispute management

Better transparency into compensation dramatically reduces the odds of disputes throughout the sales cycle. However, when disputes arise, tapping into data within your CRM system can help you identify and address disputes at the core, speeding resolution and reducing seller frustration.

What's next?

64% of organizations expect to redesign compensation within the next three years.[5]

In an environment of uncertainty, organizations around the country are re-examining their budgets to reflect variable compensation strategies.[6] The following three themes will continue to impact incentive compensation in the future:[7]

Remote work and job skills. The World Economic Forum estimates that 42% of the skills required from the global workforce will change between 2018 and 2022. By 2022, no less than 54% of all employees will require significant reskilling and upskilling.[8]

Pay equity and transparency. The events of 2020 increased focus on diversity, equity, and inclusion. 80% of employers say they care more about paying employees fairly to foster engagement and retention than about paying employees less to optimize payroll.[2]

Compensation strategy. While base pay increases for employees shrink, 69% of organizations say the changing nature of compensation expectations and strategies is important for their success over the next 12 to 18 months (but only 9% say they are ready to address this trend).[8]

A view toward practical solutions

You've got the basics. Now remember these key takeaways to help your sales team stay agile and efficient.

Data should drive compensation. Foundational aspects of an incentive compensation tool include automated compensation calculation, reporting, and dispute management. Organizations that use digital tools can take a data-centric approach to plan territories and calculate data-driven quotas. If you're not using data to drive your sales plans, your territories and quotas may be inaccurate or unfair, potentially resulting in lost revenue, increased costs, and seller turnover.

When planning compensation, look forward—not backward. The key to success isn't just looking at what a seller made last year. It's also about knowing which accounts to assign to them next year—and setting accurate revenue forecasts for those accounts. By planning quotas at the account level, you can move

accounts around, and the data-informed quotas they carry will move along with the account reassignments.

Use statistical predictions to estimate the value of new accounts. You can use AI to estimate the value of net new accounts based on the specific areas of the market where you want to focus. By planning based on the total addressable market, you can create incentives to pay for performance and improvements to the bottom line.

Are you ready to spark a shift in your incentive compensation? **Visit us** to learn more.

To the experience-maker who's always moving forward

At Oracle, we know great experiences come from great inspiration, and we're providing the spark for your next idea. Packed with powerful info, the Spark Series will get you up to speed on core CX concepts—such as incentive compensation— quickly.

Think of it as a way to hone your understanding before turning your eyes toward a new strategy. Because if anyone's going to create CX gold, it's you.

What will you discover next?

- Essential Strategies for Sales Performance Management

- Sales Trends to Keep Up With: Advanced Sales Forecasting, Planning and Performance Management

- Essential Strategies for Account Management and Renewals

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Sources

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