SALES MANAGEMENT ASSOCIATION RESEARCH REPORT

Incentive Compensation and Sales Performance Reporting Practices

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Research Report: Incentive Compensation and Sales Performance Reporting Practices

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INCENTIVE COMPENSATION AND SALES PERFORMANCE REPORTING PRACTICES

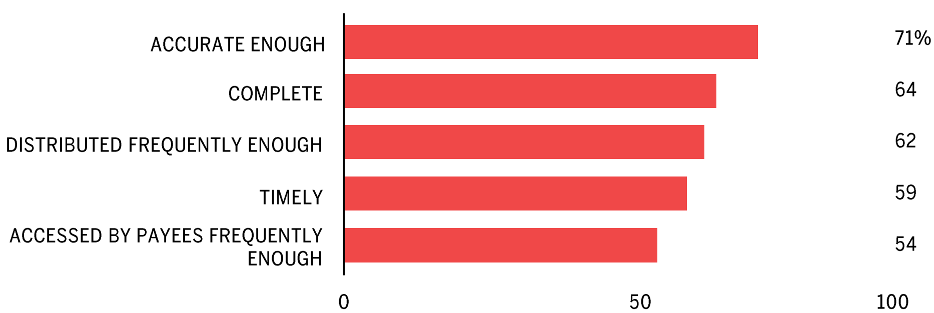
Reporting is a staple of sales performance management, and a quickly evolving discipline. This research attempts to identify emerging reporting practices that differentiate high performing firms. Our research identifies a number of such practices and reporting capabilities that correlate with improved sales productivity and increased numbers of salespeople achieving quota.

REPORTING PRIORITIES

For most firms, report accuracy is no longer their chief reporting related concern. Seven in 10 firms (71%) have accurate sales and compensation reporting, while fewer (just 59%) are able to distribute reports in a timely fashion. Fig 1.

FIG. 1. INCENTIVE COMPENSATION AND SALES PERFORMANCE REPORTING EFFECTIVENESS

PERCENTAGE OF FIRMS WITH REPORTS THAT ARE...

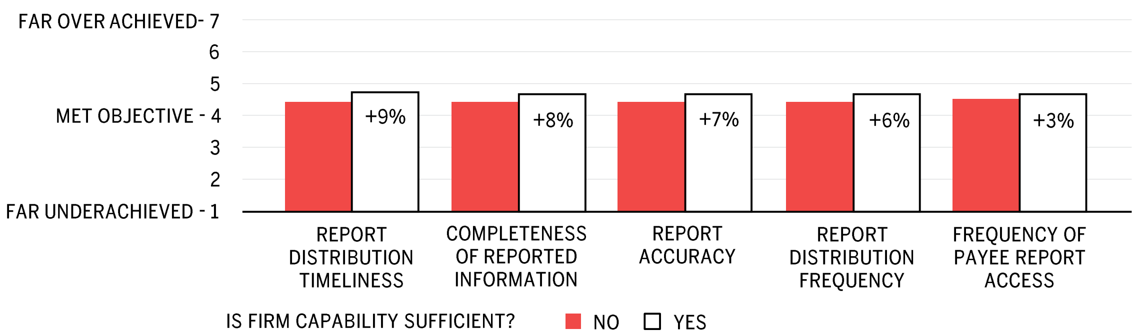


N= 103 FIRMS

Report distribution timeliness correlates with higher sales performance than does reporting accuracy (though only by a slight margin). Firms timely in distributing reports had 9% higher sales objective achievement compared to firms with less effective report distribution, while firms with accurate reporting outperformed firms with inaccurate reporting by 8%. Fig 2.

FIG. 2. INCENTIVE COMPENSATION ADMINISTRATION AND SALES PERFORMANCE REPORTING CAPABILITIES CORRELATED WITH FIRM SALES PERFORMANCE

FIRM SALES OBJECTIVE ACHIEVEMENT (PRIOR 12 MONTHS)



N= 103

Firms with timely report distribution also have more salespeople achieving quota than firms without timely report distribution. 69% of salespeople met or exceeded individual quotas in the most recent 12 months in firms with timely report distribution, compared with 62% of salespeople in firms without. Fig. 3.

FIG. 3. INCENTIVE COMPENSATION ADMINISTRATION AND SALES PERFORMANCE REPORTING CAPABILITIES CORRELATED WITH PERCENTAGE OF SALESPEOPLE ACHIEVING QUOTA

CAPABILITY	WHEN NOT PRESENT	WHEN PRESENT	ALL SALESPEOPLE
REPORT DISTRIBUTION TIMELINESS	62%	69%	63%
COMPLETENESS OF REPORTED INFORMATION	60	65	63
REPORT ACCURACY	61	67	63
REPORT DISTRIBUTION FREQUENCY	65	71	66
FREQUENCY OF PAYEE REPORT ACCESS	62	65	63

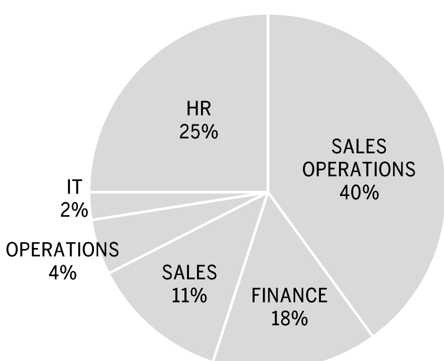
N= 97 FIRMS

INTEGRATING SALES PERFORMANCE AND INCENTIVE COMPENSATION REPORTING

Reporting sales performance and incentive compensation are often handled by separate corporate functions. Sales operations is most likely to be chiefly responsible for sales performance reporting, as is the case in 64% of firms. But sales operations departments are responsible for incentive compensation reporting in only 40% of firms, with HR and finance functions chiefly responsible for incentive compensation reporting in 25% and 18%, respectively. Fig. 4.

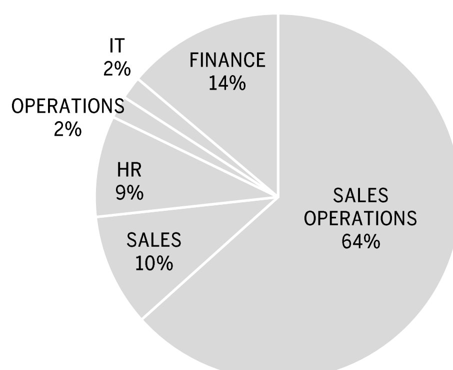
FIG. 4. FUNCTION CHIEFLY RESPONSIBLE FOR INCENTIVE COMPENSATION AND SALES PERFORMANCE REPORTING

PERCENTAGE DISTRIBUTION OF FIRMS



SALES INCENTIVE COMPENSATION ADMINISTRATION

N= 104



SALES PERFORMANCE REPORTING

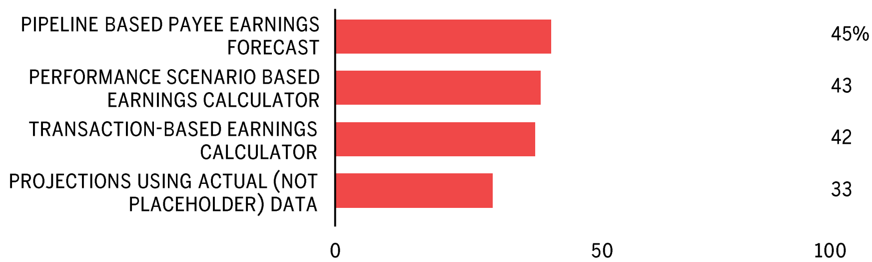
N= 103

The lack of integrated accountability for both sales performance and incentive compensation reporting likely underlies the lack of integration in reporting itself for these two areas. Earnings calculation tools represent one especially useful example of such integration.

Our research finds that less than half of firms can provide earnings projections to payees based on their opportunity pipeline (45% of firms have this capability), provide earnings calculators based on performance scenarios (43%), or provide transaction-based earnings calculators (42%). Fig. 5.

FIG. 5. REPORT MODELLING CAPABILITIES THAT COMBINE SALES PERFORMANCE AND INCENTIVE COMPENSATION DATA

PERCENTAGE OF FIRMS WITH CAPABILITY



N= 101

Those firms that do provide these integrated reporting tools enjoy higher rates of firm sales objective achievement, and more salespeople at quota than firms than do not provide them. Firms that provide pipeline based earnings forecasts and transaction-based earnings calculators have 8% higher firm sales objective achievement rates than firms that do not (firms providing performance scenario-based earnings calculators outperformed firms that do not by 2%). Fig. 6. Similarly, firms providing these tools have a greater percentage of salespeople achieving individual performance quotas. An additional 9% of the sales force achieves quota in firms that provide pipeline-based payee forecasts, an additional 13% achieves quota in firms that provide transaction based earnings calculators, and an additional 11% achieve quota in firms that provide scenario based earnings calculators, compared to firms that do not provide these integrated reports. Fig. 7.

FIG. 6. INCENTIVE COMPENSATION ADMINISTRATION AND SALES PERFORMANCE REPORTING CAPABILITIES CORRELATED WITH FIRM SALES PERFORMANCE

FIRM SALES OBJECTIVE ACHIEVEMENT (PRIOR 12 MONTHS)

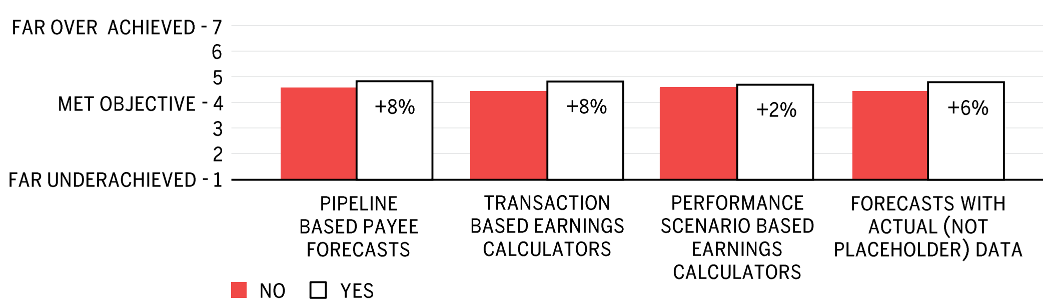


FIG. 7. INCENTIVE EARNINGS PROJECTION AND PERFORMANCE MODELING CAPABILITIES CORRELATED WITH PERCENTAGE OF SALESPEOPLE ACHIEVING QUOTA

CAPABILITY	WHEN NOT PRESENT	WHEN PRESENT	ALL SALESPEOPLE
PIPELINE BASED PAYEE FORECASTS	61%	70%	63%
TRANSACTION BASED EARNINGS CALCULATORS	58	71	63
PERFORMANCE SCENARIO BASED EARNINGS CALCULATORS	59	70	63
FORECASTS WITH ACTUAL (NOT PLACEHOLDER) DATA	56	74	63

N= 96 FIRMS

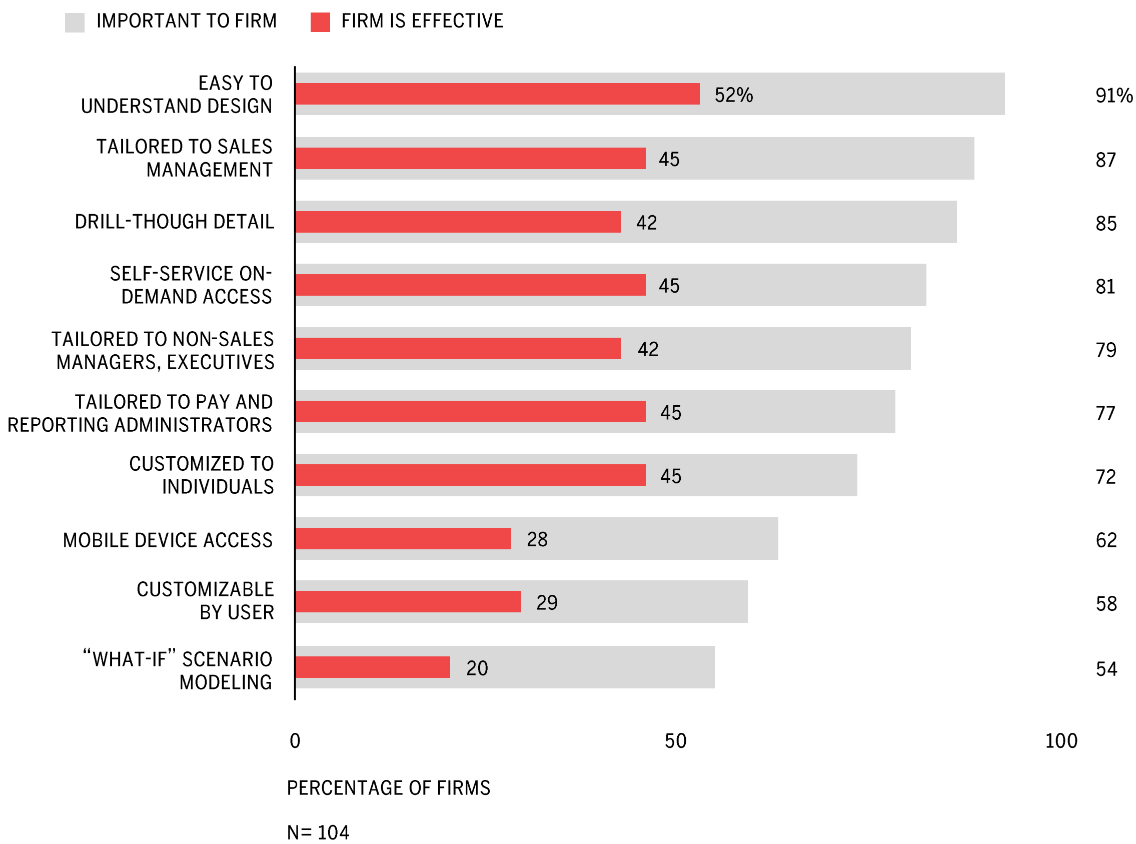
REPORTING: A BROAD CHARTER WITH SPOTTY OUTCOMES

Firms consider a broad array of report features important to include in their reporting efforts, but few firms effectively provide reports with these important features. Considered most important is easy-to-understand report design (considered important by 91% of firms). More than eight in 10 firms also consider important the need to tailor reports to sales management (87% of firms), providing drill-through detail (85%), and providing self-service on-demand report access (81%). More than half of firms consider all 10 factors researched important.

Yet only one of these report attributes is effectively provided by at least half of all firms (easy-to-understand design, effectively provided by 52% of firms). Firms are least effective in providing “what-if” scenario modelling (just 20% do so effectively), reports accessible on mobile devices (28%), and reports customizable by user (29%). Fig. 8.

FIG. 8. FACTORS AFFECTING INCENTIVE COMPENSATION AND SALES PERFORMANCE REPORTING EFFECTIVENESS

PERCENTAGE OF FIRMS



REPORTING FEATURES' CORRELATION WITH IMPROVED SALES PERFORMANCE

We compared firms effective in each of these ten reporting features with ineffective firms, and found positive correlation in feature-specific reporting capabilities and overall firm performance. Three features had the highest correlation with improved sales performance. Firms effective in providing drill-through detail out performed firms ineffective in providing this reporting feature by 22%.

This performance differential is 21% for firms effective in providing self-service on-demand reporting, and 19% for firms effective in providing reports that can be accessed by mobile devices. Fig. 9. The first two of these features also correlates with a greater percentage of salespeople at quota. Firms effectively providing drill-through detail in reports saw 17% more of their sales representative populations achieve quota in the preceding 12 months; those providing self-service on-demand report access enjoyed 10% more of their total salesperson population at quota. Fig. 10.

FIG. 9. INCREASE IN SALES PERFORMANCE WHEN REPORTING CAPABILITIES ARE PRESENT

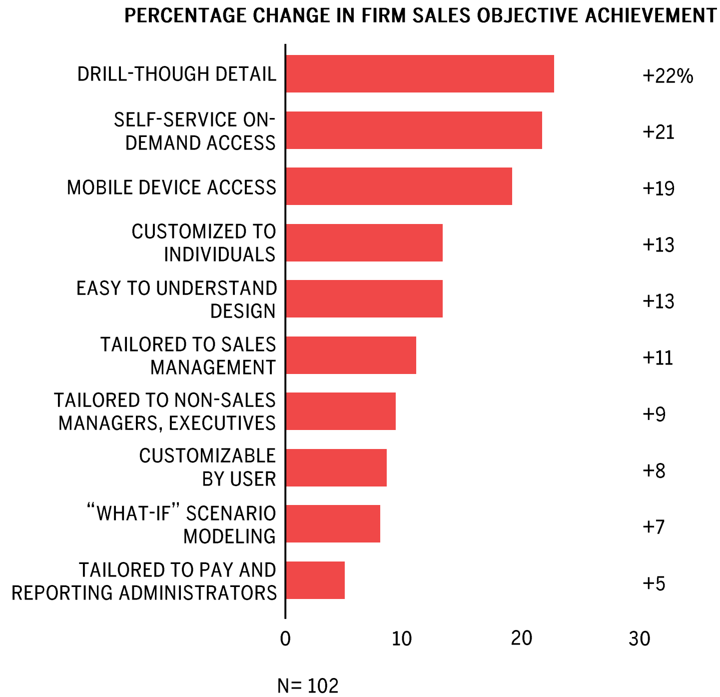


FIG. 10. INCENTIVE COMPENSATION AND SALES PERFORMANCE REPORTING CAPABILITIES CORRELATED WITH SALESPERSON QUOTA ACHIEVEMENT

CAPABILITY	PERCENTAGE OF SALESPEOPLE AT OR ABOVE 100% OF INDIVIDUAL QUOTA, PRIOR 12 MONTHS		
	WHEN FIRM IS NOT EFFECTIVE	WHEN FIRM IS EFFECTIVE	ALL SALESPEOPLE
DRILL-THOUGH DETAIL	62%	72%	63%
SELF-SERVICE ON-DEMAND ACCESS	62	68	63
MOBILE DEVICE ACCESS	68	65	63
CUSTOMIZED TO INDIVIDUALS	58	64	63
EASY TO UNDERSTAND DESIGN	70	60	63
TAILORED TO SALES MANAGEMENT	64	59	63
TAILORED TO NON-SALES MANAGERS, EXECUTIVES	64	60	63
CUSTOMIZABLE BY USER	67	64	63
“WHAT-IF” SCENARIO MODELING	63	67	63
TAILORED TO PAY AND REPORTING ADMINISTRATORS	64	61	63

N= 96 FIRMS DIRECTLY EMPLOYING 123,217 SALESPEOPLE.
AVERAGE PERCENTAGE OF SALESPEOPLE AT OR ABOVE 100% OF QUOTA IS 63% FOR ALL FIRMS.
EFFECTIVENESS IS RATED ON A SEVEN-POINT SCALE (1= NOT AT ALL EFFECTIVE, 4= SOMEWHAT EFFECTIVE, 7= EXTREMELY EFFECTIVE). RATINGS <4 ARE “NOT EFFECTIVE,” >4 “EFFECTIVE;” RATINGS OF “4” EXCLUDED.

REPORTING ON REPORTING

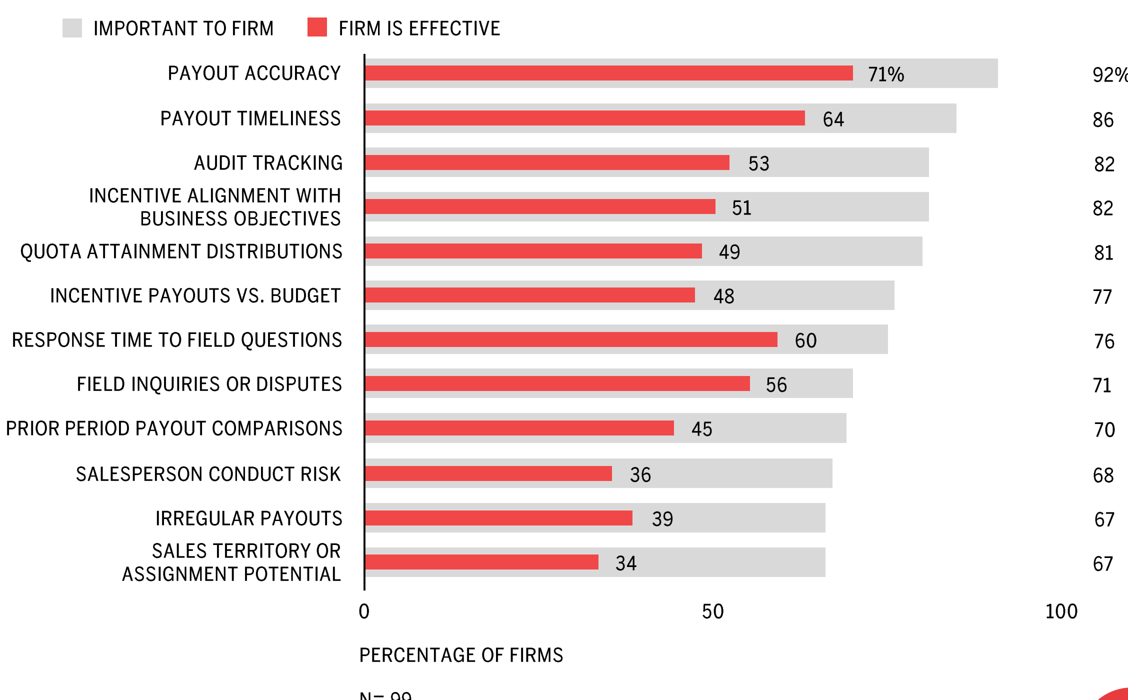
Our research also examines how firms develop and manage a professional reporting capability. Important to this effort is the need to “report on reporting” - that is, to secure accurate inputs on internal activities and functions associated with sales and incentive performance. These metrics might be considered the tools by which management can gauge its reporting effectiveness.

Chief among these metrics in rated importance is data on incentive compensation payout accuracy, considered important by 92% of firms. Payout timeliness, audit tracking, incentive alignment with business objectives, and quota achievement distributions are next most likely to be considered important (by 86%, 82%, 82%, and 81% of firms, respectively).

Firms are most successful in securing data for the two inputs considered most important, payout accuracy (available to 71% of firms), and payout timeliness (present in 64% of firms). Least likely to be available are data on sales territory potential (present in just 34% of firms), salesperson conduct risk (36%), and irregular payouts (39%). Fig. 11.

FIG. 11. FIRM EFFECTIVENESS AND IMPORTANCE TO FIRM OF DATA ACCURACY IN REPORTING, BY SPECIFIC REPORTING METRIC

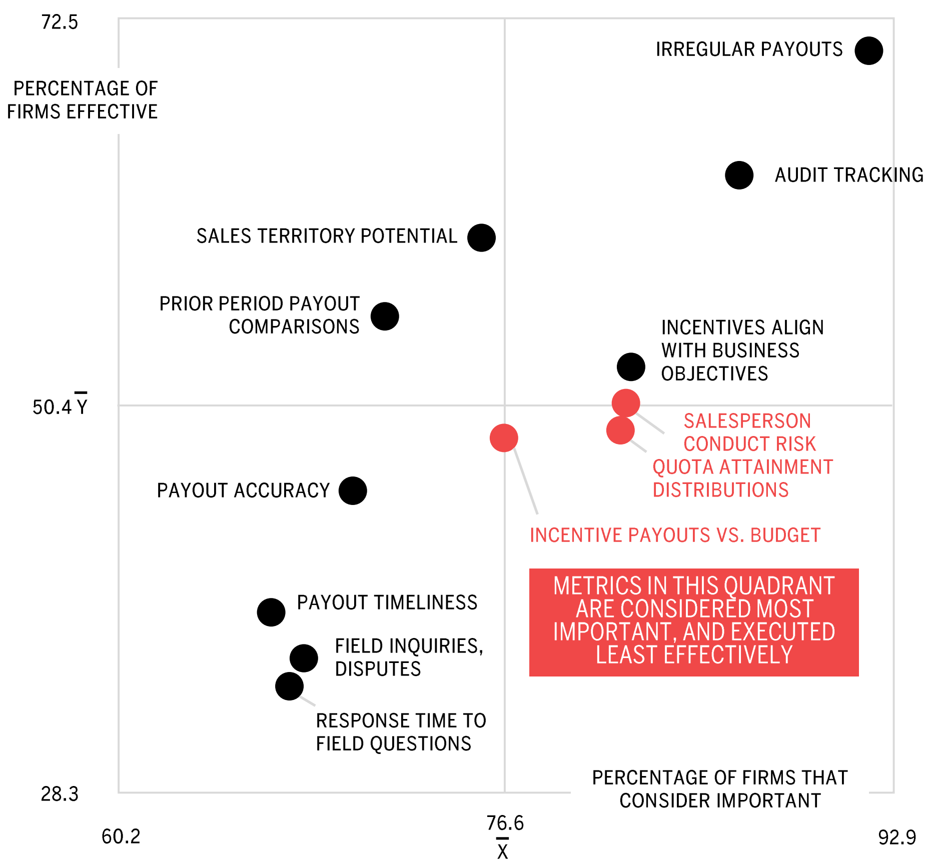
PERCENTAGE OF FIRMS



Of 12 metrics researched, three have the distinction of being both among those considered most important, and least effectively incorporated. As such, they represent the most critical improvement priorities for the typical firm. They are: salesperson conduct risk metrics, measurements of incentive payouts compared to budget, and quota attainment distribution measurements. Fig. 12.

FIG. 12. DATA ACCURACY IN REPORTING METRICS – IMPORTANCE TO FIRM AND FIRM EFFECTIVENESS

PERCENTAGE OF FIRMS THAT CONSIDER FACTOR IMPORTANT, OR CONSIDER THEIR FIRM EFFECTIVE

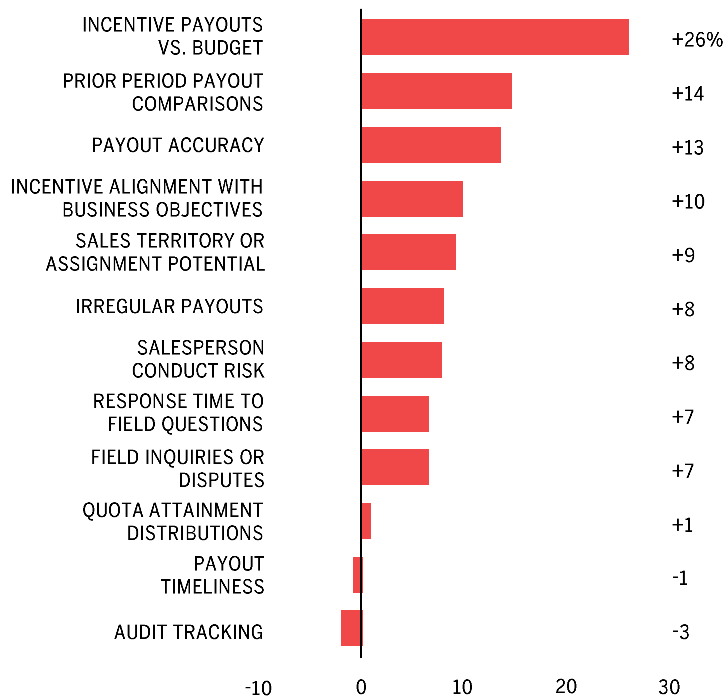


N= 99

We find that for most of these measures, firms that effectively incorporate them outperform firms that do not. Measuring incentive payouts compared to budget is the metric with the single highest correlation with improved firm sales productivity - firms that effectively use this metric outperform those that do not by 26% in sales objective achievement. Fig. 13. Similarly, such firms also have more salespeople achieving quota - 27% more of their sales organization does so, compared to firms that do not measure incentive payouts vs. budget. Fig. 14.

FIG. 13. INCREASE IN SALES PERFORMANCE WHEN REPORTING CAPABILITIES ARE PRESENT

PERCENTAGE CHANGE IN FIRM SALES OBJECTIVE ACHIEVEMENT



N= 102

FIG. 14. INCENTIVE COMPENSATION AND SALES PERFORMANCE REPORTING CAPABILITIES CORRELATED WITH PERCENTAGE OF SALESPEOPLE ACHIEVING QUOTA

PERCENTAGE OF SALESPEOPLE ACHIEVING QUOTA

REPORTING CAPABILITY	WHEN FIRM IS NOT EFFECTIVE	WHEN FIRM IS EFFECTIVE	ALL
INCENTIVE PAYOUTS VS. BUDGET	50%	64%	63%
PRIOR PERIOD PAYOUT COMPARISONS	62	64	63
PAYOUT ACCURACY	58	63	63
INCENTIVE ALIGNMENT WITH BUSINESS OBJECTIVES	63	63	63
IRREGULAR PAYOUTS	53	63	63
SALES TERRITORY OR ASSIGNMENT POTENTIAL	58	62	63
RESPONSE TIME TO FIELD QUESTIONS	64	62	63
SALESPERSON CONDUCT RISK	56	68	63
FIELD INQUIRIES OR DISPUTES	73	61	63
QUOTA ATTAINMENT DISTRIBUTIONS	63	54	63
PAYOUT TIMELINESS	57	58	63
AUDIT TRACKING	65	63	63

N= 99 FIRMS DIRECTLY EMPLOYING 125,565 SALESPEOPLE.
EFFECTIVENESS IS RATED ON A SEVEN-POINT SCALE (1= NOT AT ALL EFFECTIVE, 4= SOMEWHAT EFFECTIVE, 7= EXTREMELY EFFECTIVE). RATINGS <4 ARE "NOT EFFECTIVE," >4 "EFFECTIVE;" RATINGS OF 4 EXCLUDED.

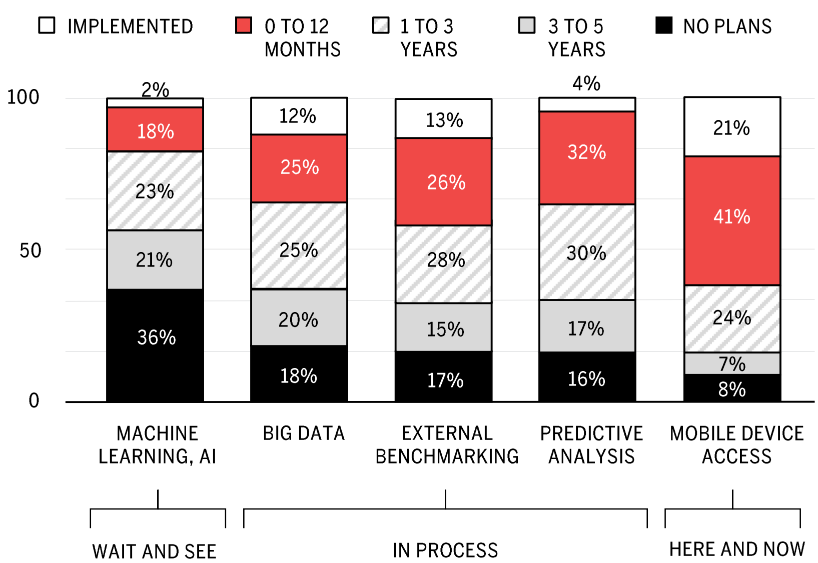
FUTURE REPORTING CAPABILITIES

While one in five firms (20%) have implemented machine learning and/or artificial intelligence to assist their incentive compensation and sales performance reporting efforts, most firms aren't embracing these technologies, and more than one third (36%) have no plans to do so. The balance (44%) expect to implement some form of machine learning or AI to assist their reporting efforts in between one and five years.

Firms are more receptive to implementing big data, external benchmarking, and predictive analytics to augment their reporting capabilities; a majority of firms have either already implemented these technologies, or expect to do so within the next three years. Fig. 15.

FIG. 15. IMPLEMENTATION TIMETABLE FOR ADVANCED TECHNOLOGIES FOR INCENTIVE COMPENSATION AND SALES PERFORMANCE REPORTING

PERCENTAGE DISTRIBUTION OF FIRMS



CONCLUSIONS

We find a collection of reporting practices differentiating high performing firms. These practices merit review by organizations intent on improving reporting capabilities related to sales performance and incentive compensation.

- Integrate accountability for reporting incentive compensation earnings and reporting sales performance. Consolidated responsibility for these two reporting topics promotes report design that most effectively combines insights for the sales organization. An example is earning calculation tools.
- Invest in earnings calculation tools that combine insights in projected sales performance and expected incentive compensation. Our research shows firms effective in providing these tools have higher rates of firm sales objective achievement, and greater number of salespeople achieving quota.
- Elevate the importance of report distribution. Effective firms value not only report accuracy, but success in getting reported insights into the hands of those most able to benefit from them. Our research shows on-demand and self service reporting tools, as well as mobile report access to be productive reporting investments. Firms effective in distributing reports have significantly higher rates of firm sales objective achievement and more salespeople achieving quotas than firms that are ineffective in doing so.
- Implement metrics that offer insight into organizational effectiveness in incentive compensation administration, and on reporting efficacy itself. For many firms, the most important metrics to improve upon are those related to salesperson quota attainment distributions, comparisons of actual and budgeted incentive compensation payouts, measures of payout accuracy, and measures of salesperson conduct risk. Firms able to accurately measure these have substantially higher rates for sales objective achievement, and greater numbers of salespeople at quota than firms that are unable to do so.

ABOUT THIS RESEARCH

This research represents summarized data from 108 participating firms, directly employing more than 130,000 sales professionals (and utilizing more than 35,500 additional indirectly employed salespeople). Data was collected from an internet based survey developed and published by the Sales Management Association. Responses were collected from April to July 2019. The analysis presented here represents all accepted responses, after edits and exclusions

We edit some survey responses. Changes to survey responses are made after follow-up with a respondent when contradictory information is provided and can be clarified in a follow-up interview, or when objectively identifiable information such as firm size is excluded or misrepresented, and can be corrected with verifiable data.

We exclude some survey responses from this total. Submitted responses are excluded or disqualified for at least one of the following reasons: (a) respondent does not meet the research participant eligibility requirements (these often require respondents to be in management roles, or employed by firms of a minimum size); (b) responses are declared invalid due to respondent "speeding" through survey responses (our online survey platform flags such responses); (c) responses are incomplete to a degree that no portion of the response is usable; (d) response includes logically contradictory information and is deemed to be invalid.

This study was made possible in part through the underwriting support of IBM and OpenSymmetry. Sales Management Association underwriters provide annual financial support to the Sales Management Association, and may suggest research topics, and on behalf of their own audiences may encourage participation in or otherwise promote research initiatives. Underwriters are not involved with research administration, data collection, analysis, interpretation, or report development, unless explicitly noted in the report. Also, unless noted, underwriters do not pay a research-specific fee or directly commission research.

RESPONDENT DEMOGRAPHICS

Firm Size

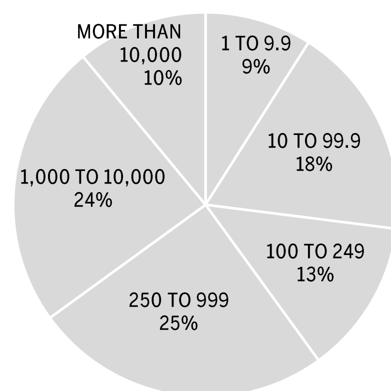
One hundred eight participating firms ranged in size from small to very large, though skewed toward larger firms. Seventy-two percent of respondents' firms have annual revenue in excess of US$100 million; 10% have annual revenues in excess of US$10 billion. Fig. 16.

Job Role

Respondents are predominately sales operations leaders in their firms. Sales operations, enablement, and related sales effectiveness roles represent 52% of respondents. Ten percent of respondents are first-line sales managers (i.e., they directly manage salespeople). An additional 14% are senior sales leaders, managing sales managers. Ten percent are HR management professionals, and 14% are in non-sales-related management positions. Fig. 17.

FIG. 16. RESPONDENTS' FIRM REVENUE, US$MILLIONS

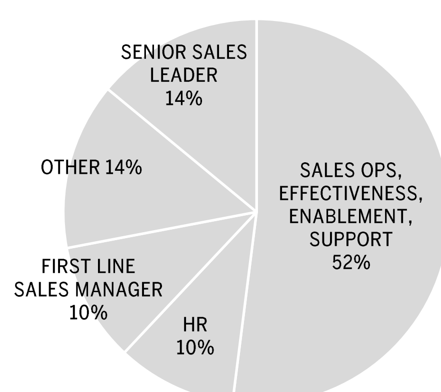
PERCENTAGE DISTRIBUTION OF RESPONDENTS



N= 108

FIG. 17. RESPONDENTS' JOB ROLE

PERCENTAGE OF RESPONDENTS



N= 108
OTHER: 6% IT, 5% FINANCE, 3% OTHER

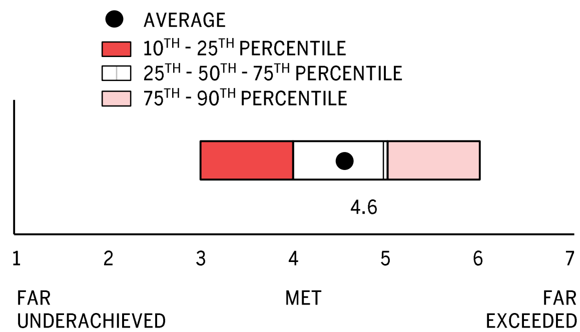
Firm Performance

Eighty-six percent of respondent firms met or exceeded firm sales objectives in the preceding 12 months. Respondents were asked to rate their firm's achievement of sales objective based on a seven-point scale ("1" for far underachieved objective; "4" for met objective; "7" for far exceeded objective). Fig. 18.

We use this performance rating approach in order to normalize company performance across large and small firms, and high and moderate growth sectors. Ten percent of respondents rated sales objective achievement in the highest two categories ("6" or "7").

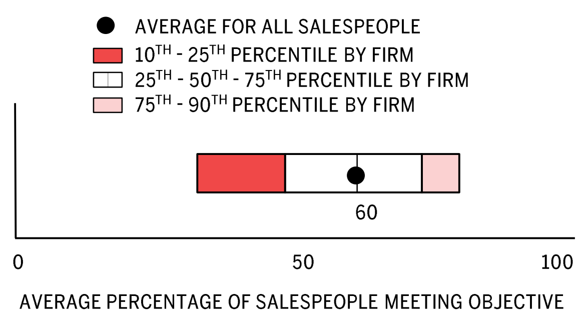
On average, 60% of salespeople in respondent firms met or exceeded their individual sales objective in the preceding 12 months. Fig. 19.

FIG. 18. FIRM SALES OBJECTIVE ACHIEVEMENT, PAST 12 MONTHS



N= 67

FIG. 19. PERCENTAGE OF SALES FORCE MEETING INDIVIDUAL SALES OBJECTIVE, PAST 12 MONTHS



N= 67

Sales Force Size, Structure, and Management Span of Control

Respondents firms have an average of 1,252 directly-employed salespeople. The median number of directly-employed salespeople by firm is 150. Fig. 20.

FIG. 20. NUMBER OF SALESPEOPLE BY FIRM

	DIRECT	INDIRECT
MIN	1	1
10%	10	5
25%	29	10
50%	150	25
75%	613	100
90%	2,070	480
MAX	30,000	15,000
TOTAL	130,252	35,849
AVERAGE	1,252	834

N= 104