

How Mid-Market Companies Use
**INCENTIVE
COMPENSATION**
as a **STRATEGIC TOOL**
to **FUEL GROWTH**

Confucius said that *the best way to govern was to do two things. First, reward citizens when they do well and second, punish or chastise them when they do poorly.* This maxim can just as easily be applied to business as to government, with the employees filling the role of citizens. Unfortunately, a lot of businesses focus only on the second part. They're quick to chastise those who perform poorly, making them work based on fear of repercussions. Yet, when employees perform well or show improvement, employers do and say nothing. *As a motivator, this will only inspire people to do just enough not to lose their jobs. Is that really what you want for your company?*

In order to see continued improvement in your business, it's essential to provide real, viable, rewards for your employees responsible for gains and improvement. This is where your incentive compensation strategy comes in.

By offering your employees extra compensation as a reward for a job well done, you are incenting them to work harder and be more productive. You are showing employees you value them and that hard work is rewarded. It may seem like just another extra expense to shell out but incentive compensation can be a very effective strategic tool for encouraging the growth of your business. When implemented properly, the profits that a compensation program helps to bring in far outweigh the costs. Here's a closer look at how incentive compensation can help your business grow and thrive.

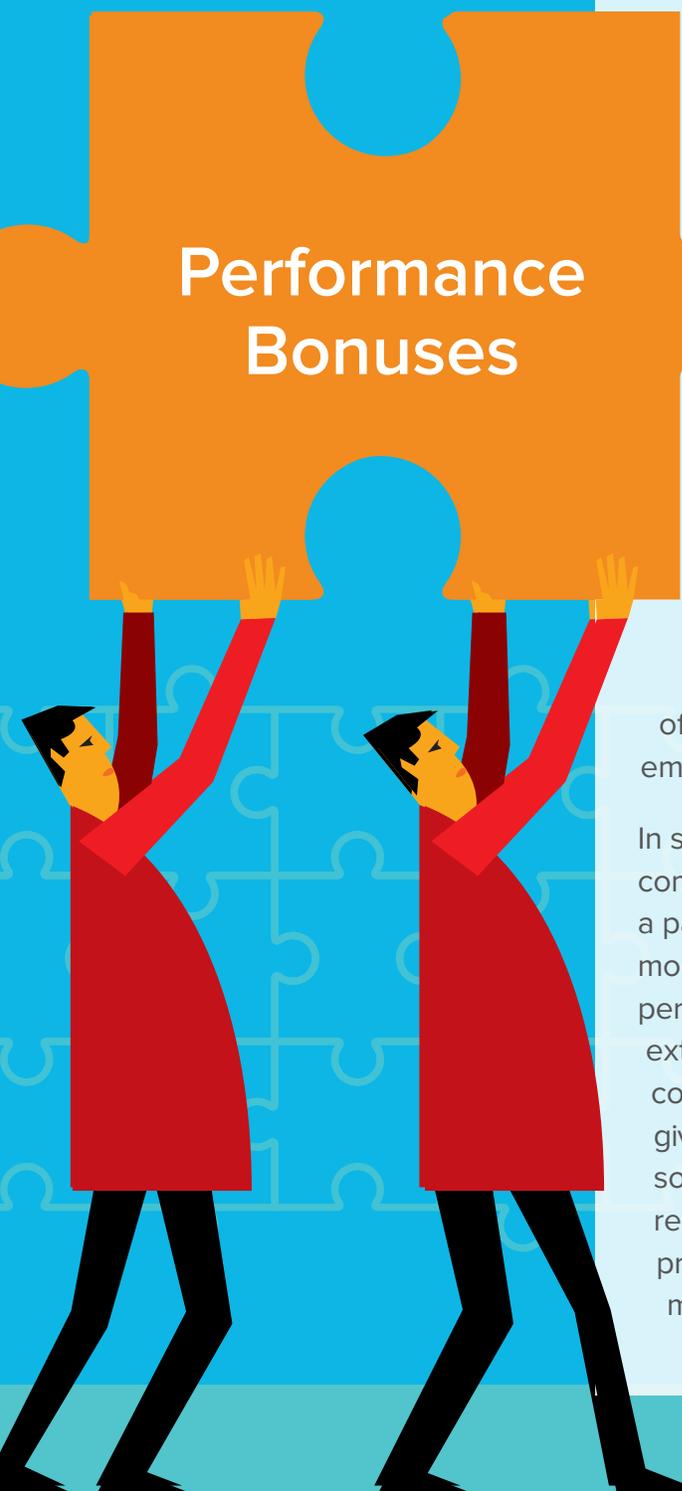


Many companies think that “incentive compensation” is just a fancy term for sales commission. For every sale one of your reps makes they get a small percentage, generally around 15 percent. While that’s definitely the most common type of incentive compensation, it’s far from the only type. Other forms include:

These are similar to commission, in that employees are directly rewarded based on the quality of the work they do. Yet, while commission incentives are a percentage of each employee’s total sales, performance bonuses are generally a specific amount that’s awarded if a particular goal is met. These types of incentives are more versatile, as they can be given to any employee in the company, not just the sales department. Set specific goals for each department and reward those who achieve them.

You can choose to give the bonus only to the top performer, which encourages a bit of friendly competition among your employees. Or, you can encourage cooperation and teamwork by giving them an all or nothing scenario: either everyone in the department gets the bonus, or no one does. Note that the latter can backfire if implemented poorly, forcing a few of the top workers to pick up the slack while less motivated employees try to ride their coattails.

In sales, a performance bonus can be offered on top of regular commission in order to encourage the sale of a new product, or a particular “hot deal” that your company wants to push at the moment. Everyone gets their regular commission on sales, but the person who sells the most of product “A” gets a little something extra. The money for incentives not covered by commission comes from a SPIF (Sales Performance Incentive Fund.) You can give your employees the money directly, or use it to buy a prize of some sort, such as a weekend getaway or a gift card for a fancy restaurant. While money is always welcome, a particularly good prize can be a nice change of pace. It can help raise employee morale, thus leading to more productivity and better sales.



Performance Bonuses

Profit Sharing

An excellent way to foster growth in your company is by helping your employees understand that growth and their impact on it. The way to accomplish this is with profit sharing. An employee sitting behind a computer doing seemingly mundane tasks for eight hours a day can easily get discouraged and lose motivation. Sure, what they're doing is helping the company but they get paid the same regardless of their performance so why should they care? If you promise your employees a portion of your annual profits if the company reaches a certain goal, it can get them more actively interested in their role in the company and how it fits into the big picture. This, in turn, leads to more growth for the company.

Stock Incentives

Stock incentives are similar to profit sharing, except that instead of a cash bonus, you give your employees shares of stock in the company. This also helps to get them more invested in the company's growth, as their job performance has a direct impact on whether their own shares go up or down. They're no longer just a cog in a machine. They now own part of the company. So they'll have more motivation to work harder and smarter, to see the company grow.

This is a particularly good option for newer companies that don't have a lot of cash on hand just yet. When done right, stock incentives in a fledgling company can be a very meaningful gesture. It says, "we may not be worth much now, but we're all in this together. If we all work hard, we'll all succeed."



Long Term Incentives

These aren't as effective as an immediate motivator but they can be used to keep your more valued employees around for the long haul by offering them security. When you offer long term incentives to your sales reps, typically a portion of their regular commission is given to them on schedule, as always, but a portion is held back and put in a special fund. The fund is then invested and allowed to accumulate interest over time. Finally, a few years down the road, your employees who are taking part in the long term incentive program have a nice retirement fund. Note that if you offer this option to an employee who's already receiving commission, the invested portion should be on top of what they're already getting. Otherwise, it seems like a reduction in the money they're making rather than an increase.

Discretionary Bonuses

All of the other incentives on this list have a specific, pre-defined cause and effect. You meet a specific goal and you get a particular incentive. Employees have an expectation that it's something they can work to achieve. However, a discretionary bonus is given solely at the discretion of management. You may decide that one person did a stellar job this month and deserves a bit of recognition, so you give them a bonus, somewhat out of the blue.

On the surface, this may seem like a good idea, but these bonuses are not nearly as effective as other types of incentives for encouraging company growth. The purpose of incentive compensation is to create an almost Pavlovian association in your employees' minds between the job they do and the reward they receive. If you want to use incentives to foster company growth, your employees need that cause and effect: the goal to be reached and the work that helps them get there. Since discretionary bonuses are decided on after the fact, they're not something your employees can work towards. So whether they have any noticeable impact on company growth is questionable.

So, lets get “under the hood” a bit to see how successful companies use sales incentives to turbo charge their success. By analyzing the “how” and “why” questions, it can help you see how the same strategies may be used for your company.

Of course, there are many companies that do not use incentives of any kind for their sales people. They pay their salespeople a salary and maybe a yearly bonus, and nothing more. But this is, more often than not, a model that simply doesn't work anymore. Remember, the really good sales people are in high demand. At any time, the best of the best have other opportunities thrown at their feet. You need to come up with a strategy not only to do right by your sales team, but to keep them working for your company for the long term.

A top performing sales rep is worth their weight in gold.



So how do growing companies use incentive compensation to drive growth?

- ✓ Building top line revenue growth by aligning sales reps behavior with the revenue goals laid out by executive leadership
- ✓ Focusing on creating a customer for life; not selling customers once and forgetting about ongoing sales follow up
- ✓ Aligning all customer “pain points” with specific, customized solutions from your company
- ✓ Ensuring that the account management team is attentive to customer needs, proactively listens and works closely with your sales team to ensure customer satisfaction and upsell opportunities
- ✓ Using technology effectively, including CRM tools and marketing automation platforms
- ✓ Attracting and employing seasoned sales people who have worked for growing companies and that respond to attractive financial (and non-financial) incentives

By focusing on these six factors, you can effectively use incentive compensation as a strategic tool to fuel growth. Trust us, your sales people will thank you for it!

Now that you have a basic idea of the incentive compensation options that are available, you need to figure out which one best fits the needs and objectives of your company. Then you need to figure out how you're going to implement your plan.

Of course, you don't necessarily have to stick to just one type of bonus. You may decide that several of them will work for different departments or at different times. It's up to you to determine when, where, and how.

First, you need to outline your goals for the company. Growth is a goal obviously, but that's not specific enough. *What kind of growth? How much, and in what direction?* Before you implement any new program in your company, you need to have a clear idea of where you are and where you'd like to be so that you can outline a strategy for how you intend to get there.

A strategy like this will help you maximize your return on investment for the incentive plan you implement. The essential question to ask is, out of every dollar your company earns, how much are you spending on incentives? Perhaps an even more essential question is, how much are you willing to spend on incentives?

In the end, it all comes down to your pre-planning. The better you're able to define your situation and your strategy, the more effectively you'll be able to implement your incentive compensation program and the better results you'll get.



So, you've got your compensation strategy all planned out, and you're ready to implement it. ***Just one more question: how will you keep track of what incentives need to be paid to which employees?*** A lot of companies rely on spreadsheets. The employee fills out their pertinent data in this month's column of the spreadsheet, and then submits it to accounting at the end of the month. Accounting goes through the figures and submits it to payroll, and they write the incentive check.

There are several problems with this.

First, you need a separate spreadsheet for each employee, and for a mid-sized company that could be anywhere from a few to a few hundred spreadsheets to keep track of. This gets tricky and time consuming when those files need to be sent back and forth to different departments. Keeping track of them all and going through them each month can be incredibly cumbersome.

Additionally, there is potential for human error. When entering in figures manually there are all sorts of chances for mistakes and discrepancies, especially when dealing with such a high volume of documents. Those errors will either go unnoticed, causing employees to be overpaid or underpaid, or they'll take forever to track down and correct, wasting company time and resources.



The solution for managing your incentives effectively is an automated system. An automated incentive management platform can put all the data for each of your employees together in one easy-to-access location. An effective system will be entirely cloud based, so that each of your employees can access the software anywhere, from whatever device they prefer to use. They can update their data in real-time and make it instantly available to the rest of the company. That way, accounting, payroll, management, and anyone else who needs the data can access it with a click, without the need for transferring a lot of reports between departments.

In addition, your incentive compensation management platform can integrate with your existing CRM (customer relationship management) system. This eliminates the time consuming data entry that you'd have with spreadsheets by allowing you to import all the necessary data from one program to the other. This also greatly reduces the potential for errors and makes any discrepancies easy to track down and resolve.



An automated incentive compensation management platform can help you implement your incentive program more effectively; saving your company time, money, and resources. It also makes it simple for you to view company progress at a glance and keep an eye on the program and see how well it's working. That way, you can make adjustments to it wherever necessary and ensure that the amount you're spending on incentives is paying off in profits. An automated system can make the entire process easier, faster, more accurate and more profitable. The result is increased growth for your company and a streamlined process for reps, finance and managers.



As mentioned before, some companies like to keep their incentive compensation strategies intentionally complicated or vague. The thinking is that the mere promise of possible extra compensation in the future will be enough to keep employees motivated, without the company ever being required to back up their promises. This is, in fact, the opposite of proper incentive compensation.

The only effective way to use your compensation plan to encourage growth is to make sure that your employees are properly educated about how it works and how it benefits them. Once you've adopted your strategy, tell everyone about it. Hold a meeting to lay out, step by step, exactly what incentives are available and what each employee can do to maximize their compensation. If you want them to increase your business, they need to know what they're working towards.



Keeping your Employees in the Loop

This also means that each employee needs to be able to track their progress over time, to see how close they are to hitting quota and what they need to do to reach their aims. Often, a leader board is posted somewhere prominent around the office with everyone's name on it that's used to keep track of their performance.

The problem with this is that a board needs to be updated manually. This brings in the potential for errors and discrepancies. Also, in a busy company, it can take time for all the necessary updates to be entered in. Thus, there's a delay between the time a sale is made and the time it shows up on the board. This may seem like a minor issue, but when trying to motivate employees and encourage company growth, it's important that the data be as accurate and timely as possible.

This is another way in which an automated compensation management program can be helpful. It allows each employee to monitor their own progress, and since the platform is cloud-based updates are made automatically, in real time, and are available instantly across the board. Employees can get an accurate, up to the minute look at how close they are to their goal and where they are compared to their peers. Thus, you'll be motivating them to work harder and do more for the company.





No matter what business you're in, an incentive compensation program can be a very effective tool for growing your mid-sized company. It's an investment in the future of your business. Effectively implemented and properly managed, it raises your employees' morale and increases their motivation to succeed. For most employees, their main motivation when they work is the paycheck they receive. If that check is the same every week, no matter the level of performance, there's no reason to excel.

By offering those extra incentives you encourage their investment in the job they're doing and inspire them to do it better. Productivity and profits will both increase and your business will grow. In short, be good to your employees and they'll be good to you in return. After all, if it was good enough for Confucius, it should be good enough for your company.



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