

The State of

Incentive Compensation Management 2022



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More than ever, it has become crucial to examine sales compensation plans and program management to ensure alignment towards a high performing – and highly engaged – sales team.

To explore current practices and perceptions around incentive compensation management (ICM), Varicent retained a third-party research firm to conduct a study. The research includes responses from 300 managers and leaders across multiple industries and company sizes.

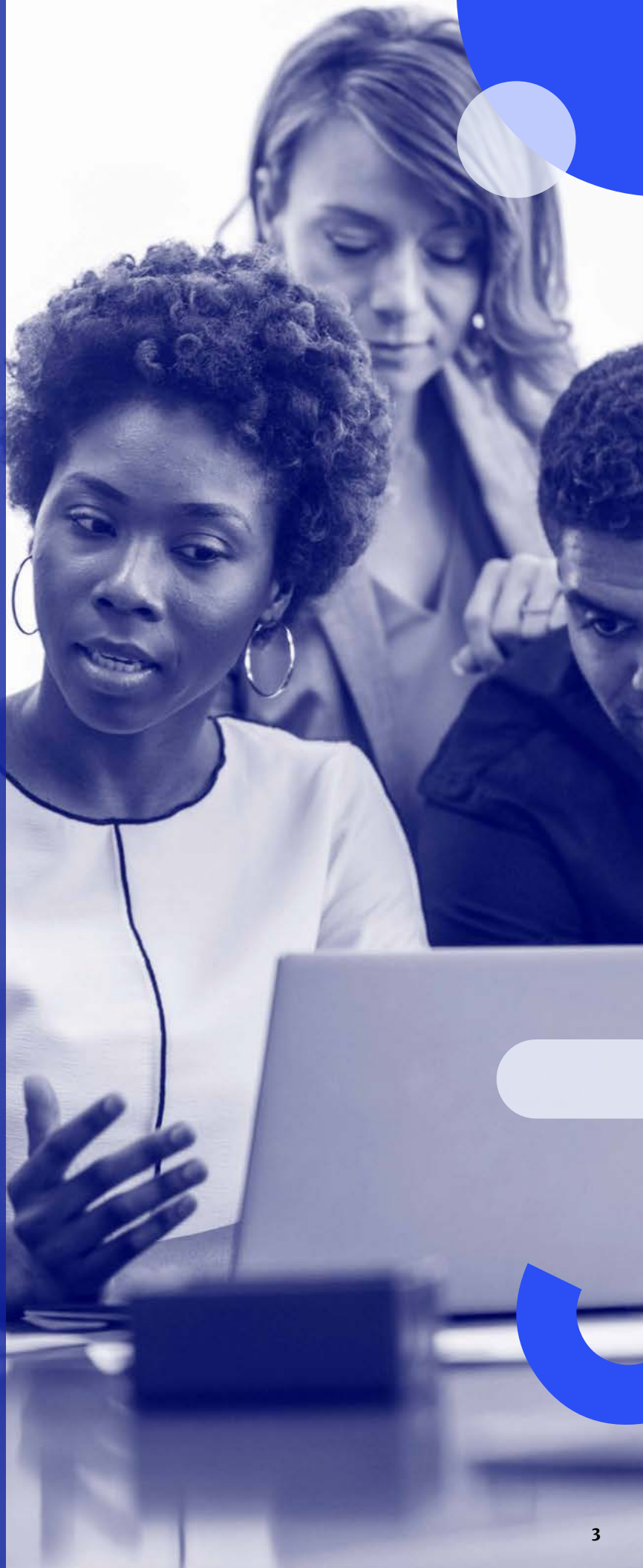
For purposes of the study, we define ICM as including the functional job roles, focus areas (disciplines), and technology responsible for managing incentive compensation.





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Key Findings

- **Over a third of companies observe their incentive plans as being moderately effective at best for driving talent initiatives.**

However, when companies prioritize ICM to support talent retention initiatives, they're likely to observe their plans as being highly effective for this initiative, as 67% of the 199 companies prioritizing ICM for talent retention rated their incentive plans as highly effective.

- Over 63% of companies have observed a high degree of impact to their ICM effectiveness through the delivery of accurate, timely, and trustworthy data.

Furthermore, 80% of the companies that rated accurate, timely, and trustworthy data as a high priority for investment over the past two years observed a high degree of impact.

- When evaluating the ROI of purpose-built third -party solutions, **67% of companies see capable people and tools for enablement as being important**, second only to accurate, timely, and trustworthy data (69%).
- Small companies are, on average, 20% more likely to report higher ICM complexity than larger ones. Perceptions of complexity can contribute to poor ICM stakeholder satisfaction. Larger companies appear better able to identify and manage the root causes of ICM complexity.
- **Only 29% of companies use their ICM solution for payee inquiry management and dispute resolution. Nearly 40% of companies need their ICM systems to better support payees in this area.**

The companies with this need are 58% more likely to use spreadsheets exclusively for ICM.

- Over 2/3 of the companies use spreadsheets, 17% exclusively, for managing ICM. In-house and CRM/HR system solutions tend to promote spreadsheet use. As companies become larger, management relies less on spreadsheets and more on purpose-built solutions for incentive compensation.
- Approximately 60% of companies see capital and budget requirements as being barriers to expanding their ICM capabilities. Initiatives for improving ICM effectiveness through third party, purpose-built solutions are more likely to rely on measures that demonstrate a return on the investment.

Strategic Alignment

Strategic alignment examines the degree to which the incentive plans address the business needs. The study asked participants to select from a list of strategic initiatives they prioritized for sales growth and intended for ICM to support. Companies typically prioritize multiple initiatives at once; in the study the median number of growth initiatives selected by a company was five. This presents a challenge for ICM focus and effectiveness.



The most-frequently selected initiatives and gaps include:

- **Talent retention and acquisition:** The results from this study underscores widespread concerns regarding both talent retention and acquisition. The study reports relatively poor alignment, with 22- and 23-percentage point gaps between strategic intent and observed program effectiveness, on talent retention and acquisition goals. Larger companies appear more likely than smaller ones to report a gap on talent retention, as income and career growth potential often struggle to compete with well-funded start-ups that desperately need sales professionals to fuel growth.
- **New customer acquisition:** Nearly 2/3 of the respondents selected new customer acquisition as a key initiative, and only 44% rated their incentive program as effective in supporting this initiative. Mid-market companies appear prone to this issue, and commonly prioritize new areas for growth to keep momentum.

- **Current customer growth:** The study reveals that only 41% of the companies rate their incentive compensation program as effective for supporting customer penetration initiatives. Companies graduating to the mid-market phase of growth struggle more here than do enterprise or small companies.
- **Current customer retention:** Just over half (54%) of companies in the study identified customer retention as a key growth initiative, and only 35% observe their program as effective for retaining customers.
- **Profitable Growth/Pricing:** Companies focused on this initiative are more likely to have transitioned into the enterprise stage of growth and observe their cost of sales growing at a rate above that of revenue. The study reported an 18% gap between strategic intent and observed program effectiveness.

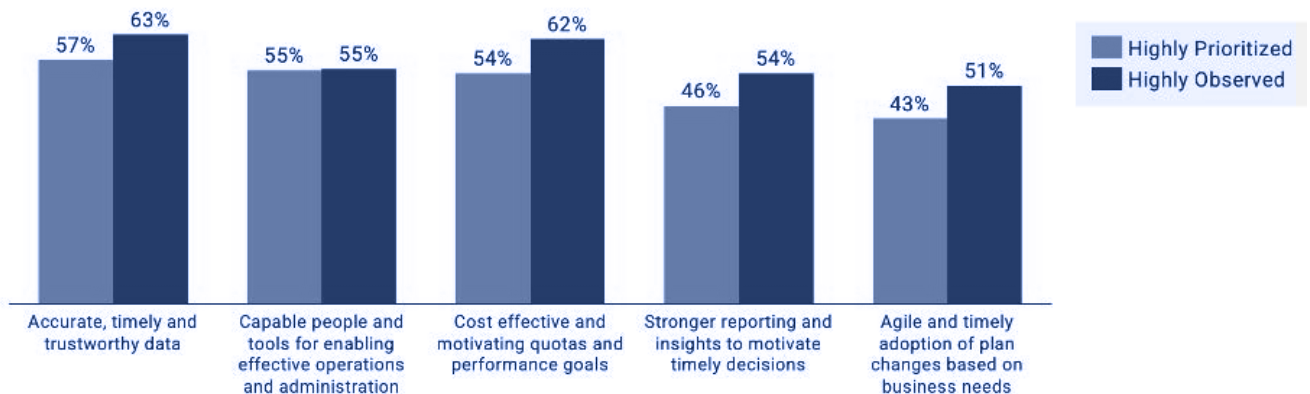


Operational Effectiveness

Operational effectiveness gets at the company's effort to improve and scale ICM. It considers the initiatives for incremental operational efficiency, and the observed impact of those initiatives.

The study asked participants to rate from a list of common ICM scale initiatives the degree to which their company targeted each initiative over the past two years, and on each initiative the degree of observed operational impact.

In the past 2 years, to what degree have each of the following been prioritized to increase incentive compensation effectiveness? (4 or 5 rating)
To what degree have you observed each of the following having an impact on your incentive compensation plan's effectiveness? (4 or 5 rating)
N=300



The majority of responses indicated a high priority in three areas, all of which show to have a high degree of impact on incentive compensation effectiveness:

- **Accurate, timely, and trustworthy data:** It's difficult to scale or even maintain an incentive program when salespeople and others who participate in program have issues with its data. In the areas where companies prioritize investment, those areas are more likely to show an impact. For example, 80% of the companies having rated accurate, timely, and trustworthy data as a high priority for investment over the past two years observed a high degree of impact. Remarked one SMB sales VP:



Our sales reps don't trust the data. They hear managers say to not sweat it, that the errors are small, infrequent, and work both ways. The 'win-some-and-lose-some/trust-me' approach doesn't scale.

- **Cost-effective and motivating quotas and performance goals:** Over 60% of respondents rated quota effectiveness as having a high impact on incentive compensation effectiveness. 54% indicated quota effectiveness initiatives as being a high priority over the past two years.
- The study asked participants to rate operational scale investment priorities for future benefit. Again, accurate, timely, and trustworthy data ranked highest on average, even for large enterprises, and companies using purpose-built solutions. Smaller companies prioritized more heavily capable people and tools for enabling effective operations and administration, with a mean rating of 3.59 relative to other initiatives and larger-sized companies. Companies using CRM and other domain-type solutions tend to prioritize ICM reporting effectiveness.



Stakeholder Satisfaction and Program Complexity

Poor stakeholder satisfaction and program complexity typically originate from upstream change, or poorly-defined requirements. Lack of clarity or changes to the revenue growth strategy, go-to-market structural elements, or management programs, including incentive compensation, can create unrest, dissatisfaction, and perceived complexity. The research identified which factors had the highest degree of impact on perceptions of complexity and dissatisfaction. Responses covered the broad list of potential factors and mentioned a few not included in the questionnaire. We highlight below the most common factors by company size.

To what degree do each of the factors below contribute to the complexity of your incentive compensation program? Rating 4 or 5
N=300

Factor	Enterprise	Mid-market	SMB
New or poorly defined revenue growth strategy	35%	29%	46%
New or poorly defined structural components	35%	31%	45%
New or poorly defined employee engagement and management initiatives	35%	42%	42%
New or changes to leadership	28%	30%	39%
Unreliable and or inadequate enablement systems	35%	37%	32%
Average high complexity ratings	34%	34%	41%

To what degree do each of the factors below contribute to low stakeholder satisfaction with your incentive compensation program? Rating 4 or 5
N=300

Factor	Enterprise	Mid-market	SMB
New or poorly defined employee engagement and management initiatives	39%	34%	46%
Unreliable and or inadequate enablement systems	44%	41%	41%
New or poorly defined revenue growth strategy	39%	33%	39%
New or poorly defined structural components	43%	28%	36%
New or changes to leadership	19%	27%	33%
Average low satisfaction ratings	37%	33%	39%

- Small companies are, on average, seven percentage points more likely to report higher ICM complexity than larger ones, across the multiple factors that contribute to complexity. The hypothesis is that larger companies can more easily recognize and manage through many of these factors to mitigate ICM complexity.
- Smaller companies are more likely than larger ones to attribute poor ICM satisfaction and program complexity with leadership changes. New leaders often bring heightened levels of scrutiny to the program and want to see program change without a solid case for change.
- Larger companies more commonly attribute poor ICM satisfaction to unreliable and/or inadequate enablement systems. These systems include operational processes supported by technical tools. Larger companies have more complex operating environments, and a larger and more diverse group of stakeholders who require transparency.

- Smaller companies tend to attribute program complexity to a new or poorly defined revenue growth strategy. Sales compensation relies on clarity and alignment across the growth strategy, job responsibilities, and incentive plan. Salespeople and other ICM stakeholders get confused and dissatisfied when these components appear to be misaligned.
- Mid-sized companies rate new or poorly defined employee engagement and management initiatives most frequently as contributing to ICM complexity. Stakeholder satisfaction appears less impacted by these issues in midmarket companies.



ICM

Solution, Adoption, Needs, and Barriers

Most companies in the study use a variety of tools and technical applications to manage incentives.

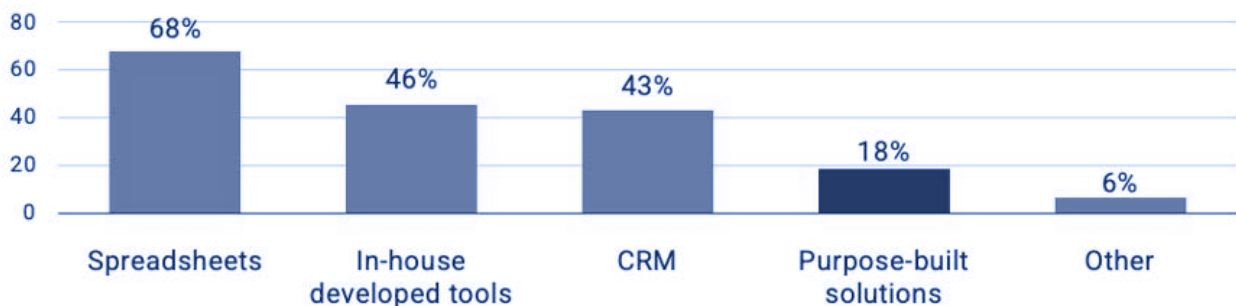
Spreadsheets: Over 2/3 (68%) of the companies use spreadsheets, and most of those companies use it in conjunction with another solution. Seventeen percent (17%) use spreadsheets exclusively for ICM. As companies become larger, management relies less on spreadsheets and more on purpose-built solutions for incentive compensation.

In-house (home grown) solutions: Nearly half (46%) of the companies use systems built in house for ICM. Enterprise companies more likely use home-grown solutions given the required investment and domain expertise that isn't prioritized in smaller organizations.

Domain systems: These include CRM and HR applications, configured to help enable ICM, in addition to their core purpose. Small companies are more likely than enterprise (46% to 39%) to use CRM and other domain systems for ICM.

Purpose-built (third-party) solutions: Only 18% of the companies use a third-party solution that's purpose-built for ICM. In the enterprise space, 20% of respondents indicated use of purpose-built solutions.

Which solutions do you currently use to manage your incentive compensation?
Select all that apply. N=300

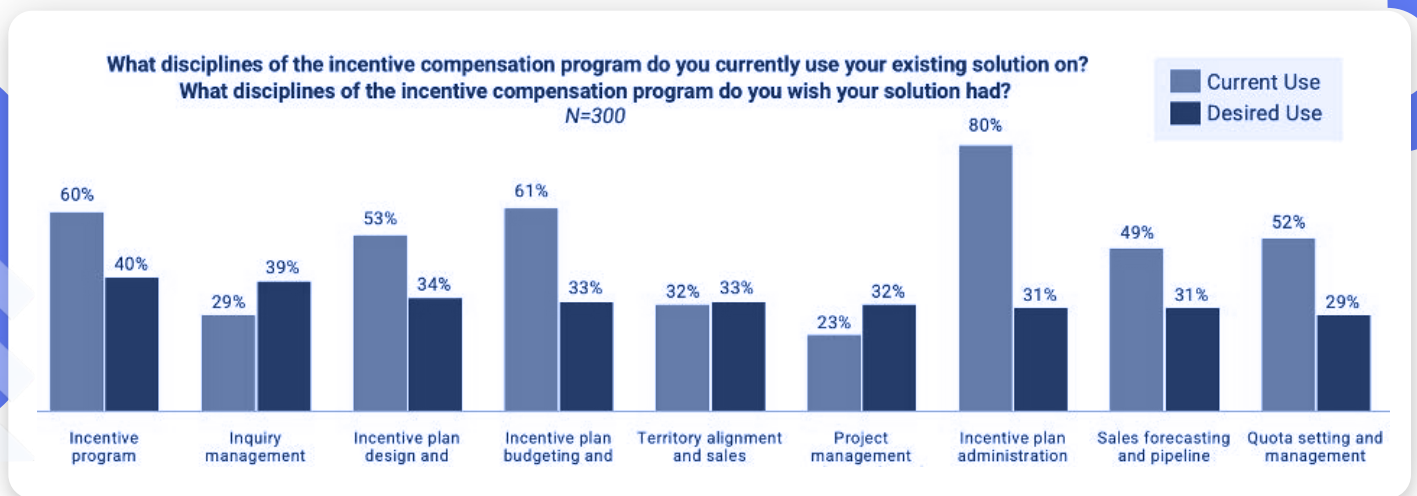


ICM solutions, in addition to plan administration, can also address issues pertaining to plan design and assessment, sales operations and enablement, financial planning, and project management.

Participants selected disciplines that are currently supported by their ICM solution from a list, and which of these disciplines they wish their solution supported. Frequently noted were incentive program assessment (40%), and inquiry management (39%). Those companies with the highest degree of unmet needs were most likely using spreadsheets.

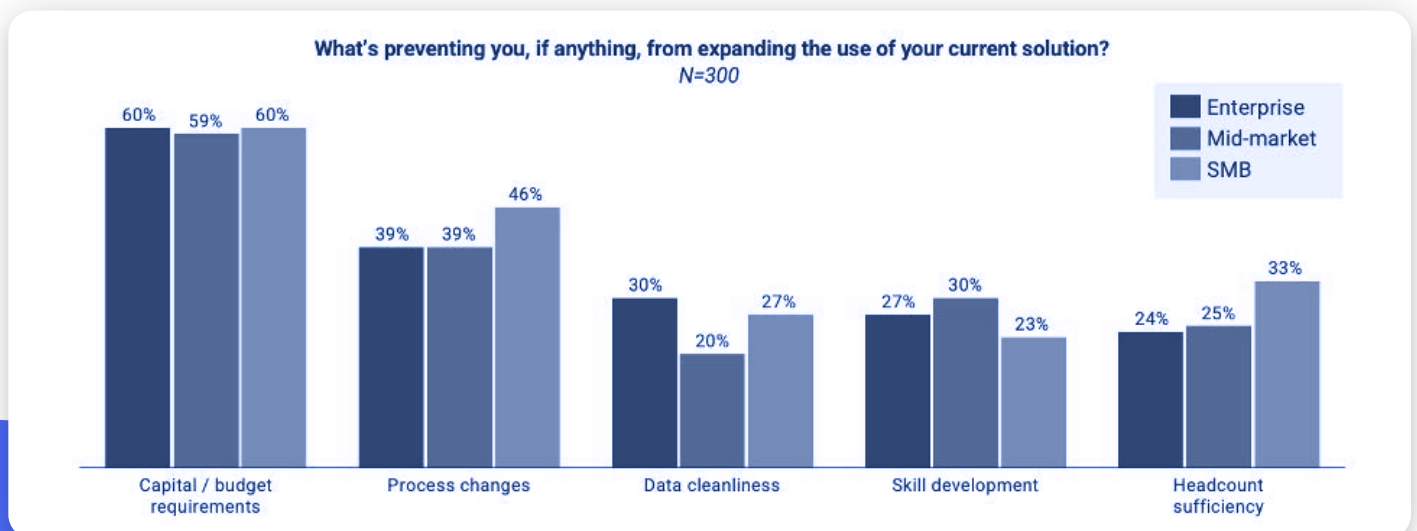
Users of spreadsheets wish they had better access to incentive program assessment and analysis (43%), incentive plan design and strategic alignment (41%), and inquiry management (40%). Those who use in-house developed and CRM-derived solutions also had similar unmet needs when it came to their current tool.

The survey asked participants to 1) indicate those disciplines currently supported by their ICM solution, and 2) those disciplines they wish their solution supported. Unmet needs appear widespread, as each of the disciplines listed below generated approximately one-third of the responses.



What are the common barriers to addressing these needs? Approximately 60% of the companies, regardless of size, pointed to budget requirements as being responsible for blocking progress. Smaller companies are more likely than larger ones to recognize process changes (46%), and headcount sufficiency (33%), as barriers to expanding their ICM capabilities.

Companies relying on spreadsheets more often point to budget restrictions, whereas those using in-house solutions typically see headcount additions as barriers to scaling the ICM effort.



Summary

While a company's budget for incentive compensation is small relative to base salary, the management effort is disproportionately large. Variable pay programs have multiple stakeholders across different functions and their responsibility for incentive compensation varies by company. Effective ICM relies on executive-level sponsorship and in larger companies cross-functional committees, program management, clear decision rights, and advanced, purpose-built technical solutions.

This study focused on two dimensions of incentive compensation effectiveness: strategic alignment and operational effectiveness. The fact that so many companies see gaps between their strategic growth initiatives and incentive plans designed to bolster them points to inherent limitations of compensation relative to other management programs. In comparison, there's a clearer line of sight between ICM and operational effectiveness. More companies see benefits from investments in ICM data, people and tools, reporting capabilities, and processes for agile and timely adoption of plan changes, than they do strategic alignment.

The study suggests a chicken-and-egg scenario for many companies: managers can't secure budget for ICM solutions, when leaders want evidence of a return from these investments.

Companies using purpose-built, third-party ICM solutions benefit from technology that promotes data reliability, advanced reporting and predictive and prescriptive analytics, and talent engagement. Incentive Compensation can advance their ICM solutions through a strong business case that includes metrics and measures of strategic and operational benefit.



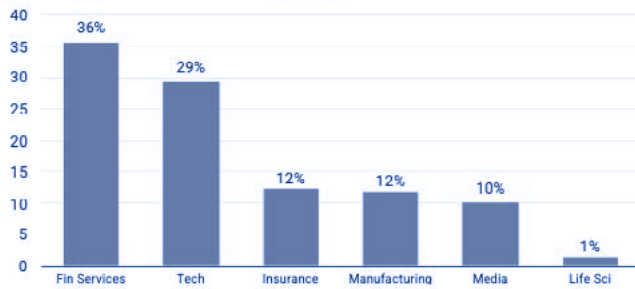
Appendix

Survey Participants

Varicent surveyed 300 respondents who were involved in their company's incentive compensation management program. There was a wide range of functions, company sizes, industries and geographies included in the research.

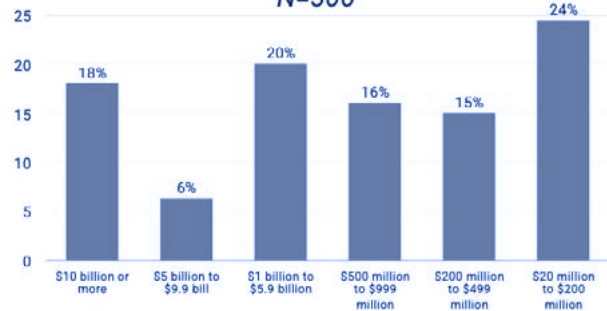
Industry

Which of the following best describes your industry?
N=300



Annual Revenue

What is your company's annual revenue?
N=300



Headquarters Country

N=300

Country	Total Percent
US	65%
United Kingdom	16%
Canada	14%
France	6%

Employee Count

Approximately how many people does your company employ globally?
N=300

Company Size	Employee Count Range	Percentage
SMB	Employees: Less than 100	7%
	Employees: 100 to 249	8%
	Employees: 250 to 499	8%
	Employees: 500 to 999	14%
Mid-market	Employees: 1,000 to 4,999	27%
	Employees: 5,000 to 6,999	7%
Enterprise	Employees: 7,000 to 9,999	3%
	Employees: 10,000 or more	27%

Job Function

In which job function does your job reside?
Which of the following job types best describe your role?
N=300

Role	Job Function				
	Human Resources	Sales or Revenue Operations	Finance	Sales, Services or Customer Success Management	Executive Leadership
Analyst	2%	1%	1%	0%	0%
Director, managing People Managers	8%	7%	4%	3%	3%
Manager – individual contributor	4%	4%	6%	4%	1%
Other	2%	1%	1%	2%	1%
People manager	2%	2%	4%	4%	0%
Specialist or Subject Matter Expert	3%	3%	1%	2%	1%
VP, managing Directors	6%	4%	2%	2%	10%

About Varicent™

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