7 Strategies for Large-Scale ICM

CONTENTS

Introduction

Large sales organizations face unique challenges in their sales compensation structure and processes.

This is due to an array of intersecting factors, including intricate and, at times, shifting compensation formulas, frequent changes in sales territories and account allocations, and large volume of sales transactions -to name just a few issues.

In this whitepaper, we examine how to address those issues and challenges unique to large sales organizations. And we'll offer some concrete recommendations, based on our extensive experience at NICE with largescale institutions.

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CONTENTS

Data Accuracy

The Challenge

Large companies are often hindered by the use of multiple legacy IT systems, which are difficult to integrate. This significantly impacts incentive compensation processes, which use data from multiple HR, finance and sales systems. The result is data inconsistencies or lack of data, manual verification processes and extremely long timelines to launch and update new compensation plans.

Often, companies also depend on self-reporting and manual data entry of sales transactions by sales agents or administrators – a process that is time consuming and error prone.

This setup typically results in commission overpayments, clawbacks, disputes, distrust among sales reps regarding their pay statements, and extensive "shadow accounting". Gartner estimates that up to 8% of all sales compensation expenditures are overpayments.

What's Needed

Straight through processing of transaction data from the source application to the ICM system. Combining filtering, calculations and data feeds, an incentive compensation management system should scale back the need for human intervention, and accelerate compensation and commission processing.

Identification of outliers should be automated to reflect your business rules regarding those transaction types or volumes that mandate further validation. For instance, the system could automatically alert administrators of transactions above a designated value, in order to obtain their manual verification.

Automated workflows, in order to quickly and easily capture data needed for compensation calculations. An automated workflow process would pull transactional data from various source systems, only allow for limited manual additions, and then submit the payment request directly. By pre-populating as many fields as possible, based on the nature of the transaction, the need for manual validation and corrections is reduced dramatically.

CONTENTS

Complex Compensation Logic

The Challenge

Large organizations have a very wide array of variables and rules that need to be taken into account for sales compensation payments, beyond the amount of the sale. These can include the type of fund sold, the customer's profile, duration of investment, payment flow, date of transaction, multi-dimension rates and more.

Teaming agreements and compensation splits are also quite common in large sales groups, with compensation and volumes divided amongst multiple payees. This adds yet another level of complexity.

For example, in large financial organizations, one of the trickier issues is time. Commission calculations quite often depend on accrued customer payments over time and, in some cases, may also be tied to a sales rep's quarter-to-date (QTD) earnings. When a payee is allowed to drop on and off a plan over a given period of time, pro-rating on a daily level is also required.

What's Needed

Fast processing and adjustments. Your compensation system must be able to quickly and precisely process complex compensation payment formulas and logic, and automatically make necessary adjustments before compensation is paid.

Commission capping. Automatic capping applied in real-time can help you comply with regulatory requirement and prevent mis-selling of products that are not suitable for specific end customers.

Clawback calculations. Your system should be able to continuously track cancelations or terminations of sales over a multiple-year term. Verification of payments should be based on actual payments, rather than compensation logic. So, for example, if a transaction was capped, then only the capped amount should be recovered.

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CONTENTS

Elaborate Crediting Rules

The Challenge

Team incentives and compensation splits among multiple payees, based on their hierarchy or location, are the norm in large sales organizations. For example, several payees may split all compensation earned by any team member for the lifetime of their agreement.

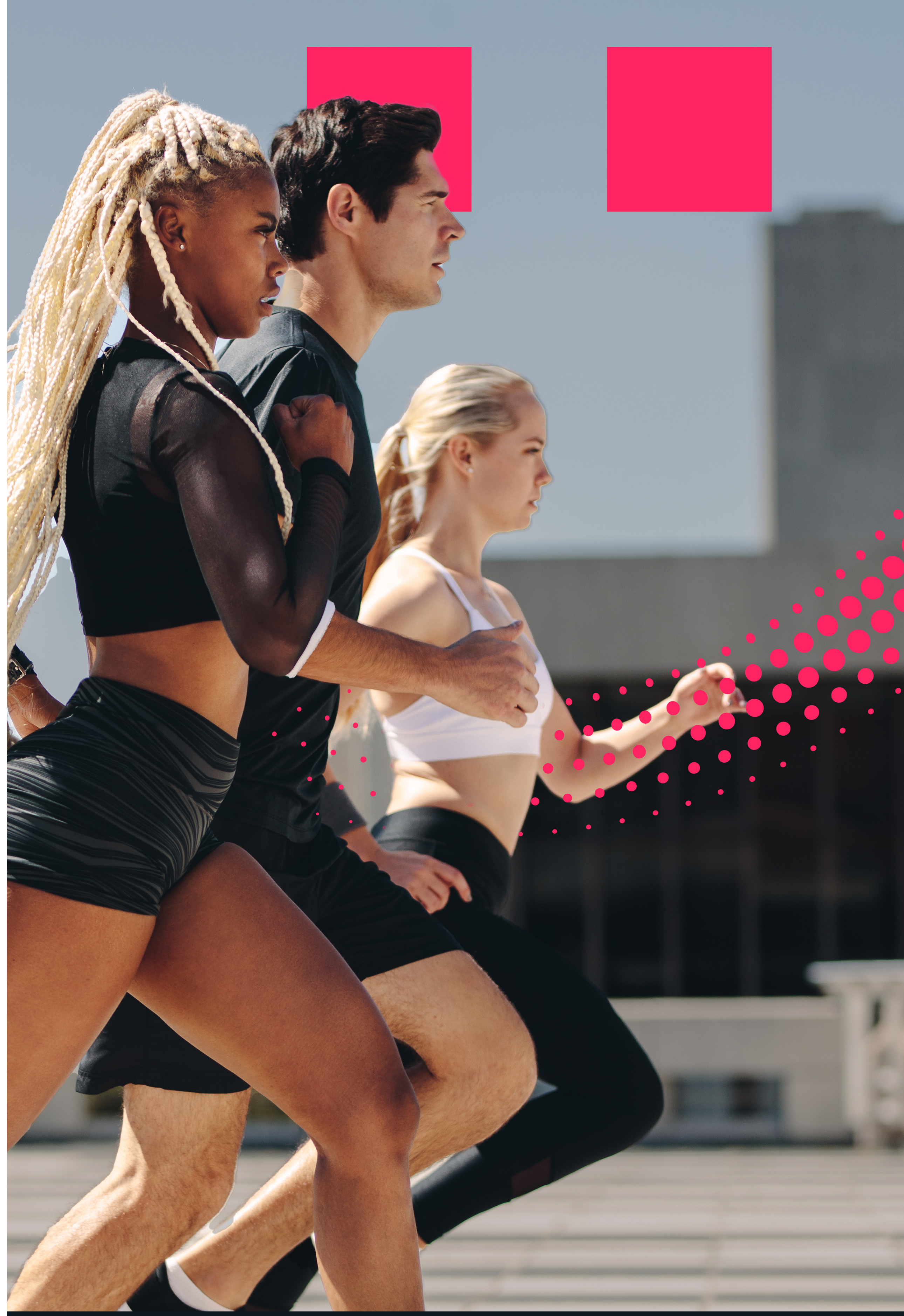
Some companies, like financial services and banks, often only pay commission on a limited number of products. Therefore, the crediting matrix includes particular products and specific terms for investment, alongside a lot of transactions for which agent compensation is not paid. These rules and parameters are generally updated on a regular basis.

What's Needed

IT-free crediting mechanism. Your crediting mechanism should be easy enough for sales operations staff to independently adjust the rules without the need for IT involvement.

Smart data management. Including loading, auto-validation and manipulation on load ensures that the ICM system assigns commissions for transactions based on a specific set of rules and parameters.

Performance. Your ICM system should be able to process large volumes of sales transactions involving complex crediting, supporting fast payments and distribution of commission earning reports to payees and management.



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CONTENTS

Commission Payments Over Time

The Challenge

In some cases, the long-term nature of specific products such as mortgages, mutual funds and other investment instruments impacts the dynamics of sales commissions. Organizations must control payment of incentives over time using clawback rules and other deferred compensation methods, in order to ensure that sales personnel keep an eye on longterm outcomes, rather than only short-term profits.

For example, if a booked loan has deteriorated, you must have a process in place to reduce the associated compensation.

What’s Needed

Plan creation. Compensation administrators should be able to easily define rules to handle different clawbacks and sales redemption scenarios.

Simple maintenance. By maintaining rules in a single repository, with full audit capabilities and a comprehensive view of all data, sales recoveries and redemptions can be efficiently handled in realtime.

Strong analytics capabilities are needed to spot outliers, trends and exceptions, as well as to fine tune compensation dynamics over time.

CONTENTS

Visibility and Reporting

The Challenge

With the recognized complexity of commissions and the large number of payees, it is essential that sales reps understand what they're being paid and can clearly track their compensation statements. A lack of transparency negatively impacts motivation and trust, as well as leading to time wasted on unnecessary queries.

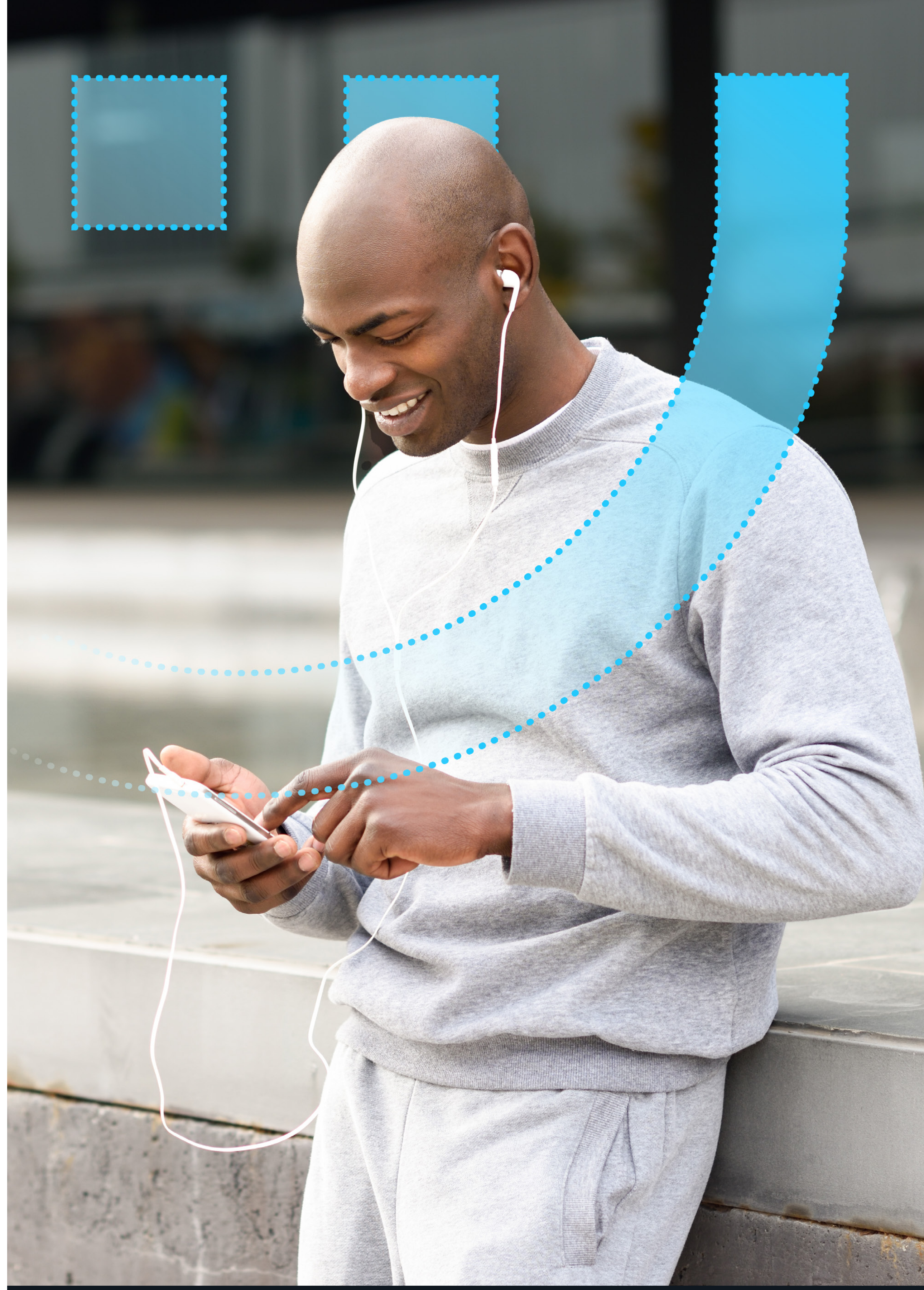
In this regard, it is vital that payees be able to tally their compensation easily, even when the duration of transaction payments extends over months or years.

What's Needed

Direct line of insight. Payees should have a direct line of sight into how they'll be paid, with frequent statements that cover periodto- period payments, year-to-date payments, and clawback data so that the balance reflects retrospective changes.

Simple design. The design and presentation of reports should be simple and clear, saving time and reducing complexity.

Team results. Managerial statements should allow focusing on team results, with top-down summary values and the ability to drill down into individual transactions, based on hierarchy authorization.



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CONTENTS

Compensation Modeling

The Challenge

Strategic planning of variable compensation is a yearly activity, aiming to optimize commissions to drive more top-line revenue, while reducing the risk of change.

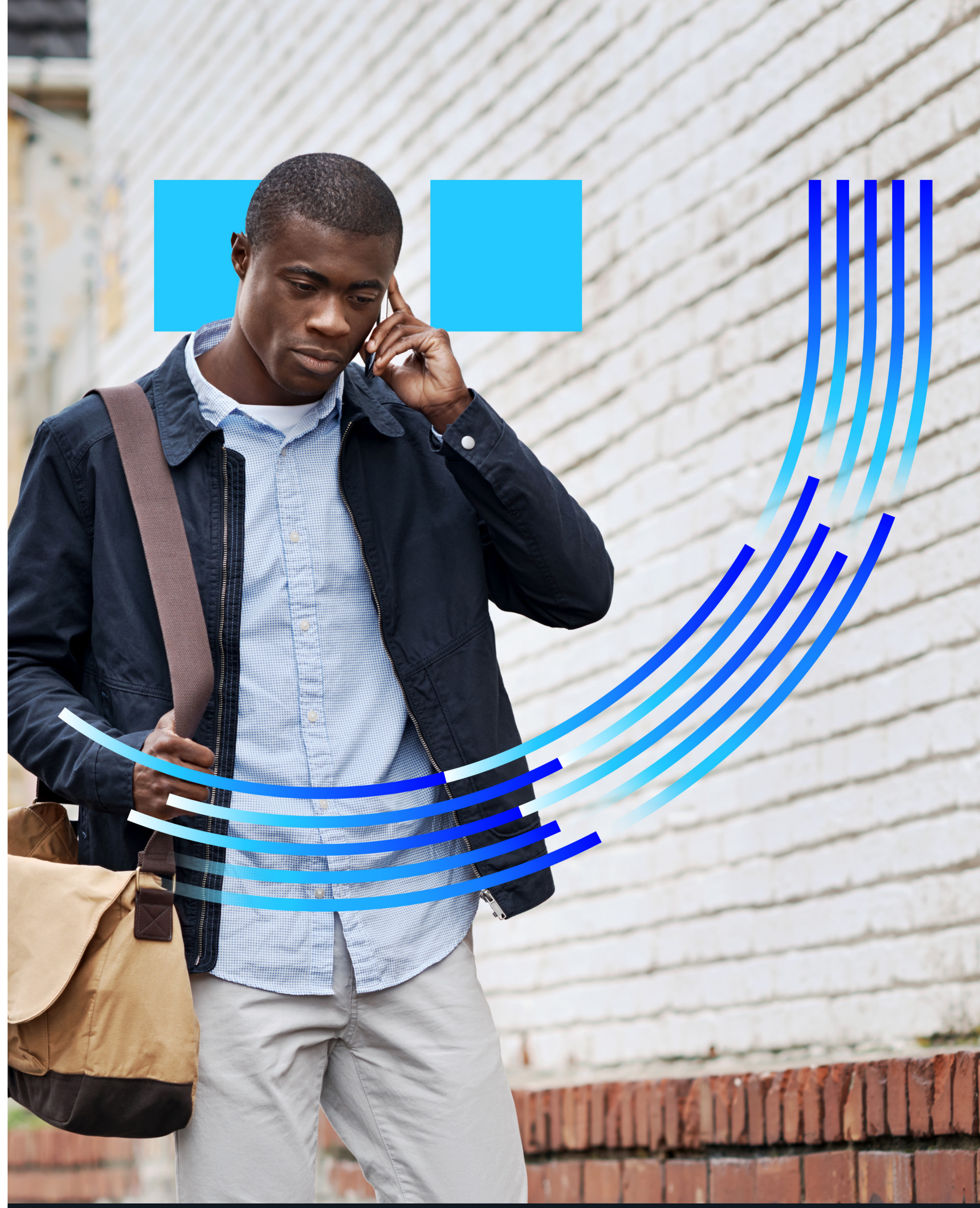
Those responsible for drafting such plans want answers to questions such as: How much commission will be paid next year? What would be the impact of a short-term incentive or SPIF? How much compensation can be recovered by changing the duration of clawbacks? How would changes to the capping amounts impact top-performing payees and overall commission payouts?

Typically, manual modeling is done to calculate the impact of such compensation plan changes. However, this is time consuming and error prone - making it difficult to plan strategic changes with the desired confidence.

What's Needed

Automated modeling. A mechanism allowing organizations to modify compensation variables should automatically recalculate ICM data to model how such changes affect total compensation and payee performance. This would typically involve reporting the difference between a system baseline of compensation and the modelled values for up to a year's worth of data.

A quick to market approach allows organizations to create new incentive plans and SPIFS, which can be measured and promoted to a live state without requiring months of rework for different iterations. This would be most effective for introducing compensation plans in connection with new products that become available on short notice.



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CONTENTS

Multiple Sales Groups

The Challenge

Large sales organizations have multiple sales divisions and lines of business, each with its own variable compensation plans, rules, sales hierarchies, schedules and reports. Investment consultants selling mortgages or lines of credit, for example, will have different sales compensation requirements than a banking group selling checking and savings accounts.

While each such group or division can have its own incentive compensation management system, this increases IT effort and prevents organization-wide management of compensation.

What's Needed

A single compensation platform that lets you manage compensation data for all divisions and groups will reduce overhead and simplify administration.

Analytical insight across divisions, including the ability to view, drill-down and analyze compensation and sales performance data from all lines of business, will allow you to gain a deeper understanding, identify program strengths and weaknesses, and drive the right behavior among different teams.

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