



# DRIVE REVENUES AND LOWER COSTS BY OUTSOURCING SALES PERFORMANCE MANAGEMENT

## Author

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## Executive Summary

Over the last two decades, organizations have incorporated automation and outsourcing of labor as a means of achieving their cost-reduction objectives. Delivered as point solutions, these investments have provided the desired targeted but often temporary relief. However, they have not provided the panacea to solve the business challenges that organizations face.

To achieve substantially better results, the sourcing focus has shifted to areas where outsourcers can manage more complex processes, adopt technology changes, and provide domain experts to radically alter the business process outsourcing (BPO) value proposition. Leading sales operations professionals are looking to new Business Platform offerings from highly competent BPO services providers that bundle best-in-class technologies, people, and processes to improve business outcomes. One such set of outsourced services, Sales Performance Management (SPM), not only reduces operating costs but can positively impact revenues and streamline sales operations.

Companies that want to cut out the inadequacies and costs associated with labor-intensive, error-prone processes; get better visibility into sales force performance; and gain efficiencies in their sales operations should take a serious look at outsourcing SPM. Specifically, organizations with more than 100 salespeople may find a sales compensation management (SCM) BPO solution of particular value.

## Introduction

Over the past few years, HfS Research has been tracking the development of BPO provider **Syngy**. Syngy is a specialist provider of SPM software, software hosting services, implementation services, and BPO services, what HfS would now term a **Business Platform** provider. Business Platform providers deliver the technology, operational skills, and the business services needed to help clients achieve specific business outcomes.

As part of our Business Platforms research, we investigated how three Buyer organizations are improving business outcomes using a Business Platform for SCM, a core component of SPM. SCM can be delivered on a set of standard processes, with significant unique personalization to the client, and is also an area where an outsourcing provider can optimize the SPM processes of their clients.

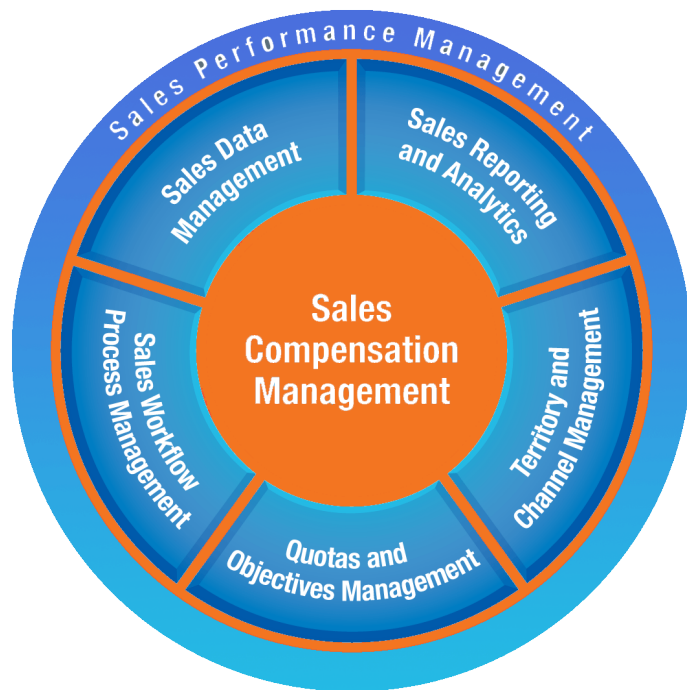
This report outlines the business benefits and return on investment (ROI) achieved by three multinational companies that have outsourced the end-to-end management of their sales compensation programs—inclusive of technology, people, and processes—to **Syngy**. HfS found all these firms received significant cost savings, greatly improved operational processes, and expert input that enable them to quickly adapt their variable compensation plans to meet business objectives, including revenue goals.

## What is SPM and why is it important?

SPM refers to an integrated framework of competencies and technologies that help organizations plan, model, and execute strategies to drive sales force effectiveness. Much of SPM revolves around SCM, which is a huge cost ticket for organizations and is linked inextricably to top-line performance. Well-designed compensation plans coupled with properly administered processes and software applications make it possible for organizations to effectively align their sales compensation strategies with desired business outcomes that will positively impact revenue generation.

Services providers taking end-to-end process responsibility for SCM may also assume responsibility for five related areas of SPM: quotas and objectives management, sales data management, territory and channel management, sales workflow process management, and sales reporting and analytics. (Exhibit 1)

**Exhibit 1: SPM Involves Multiple Processes**



Source: HfS Research/Syngy

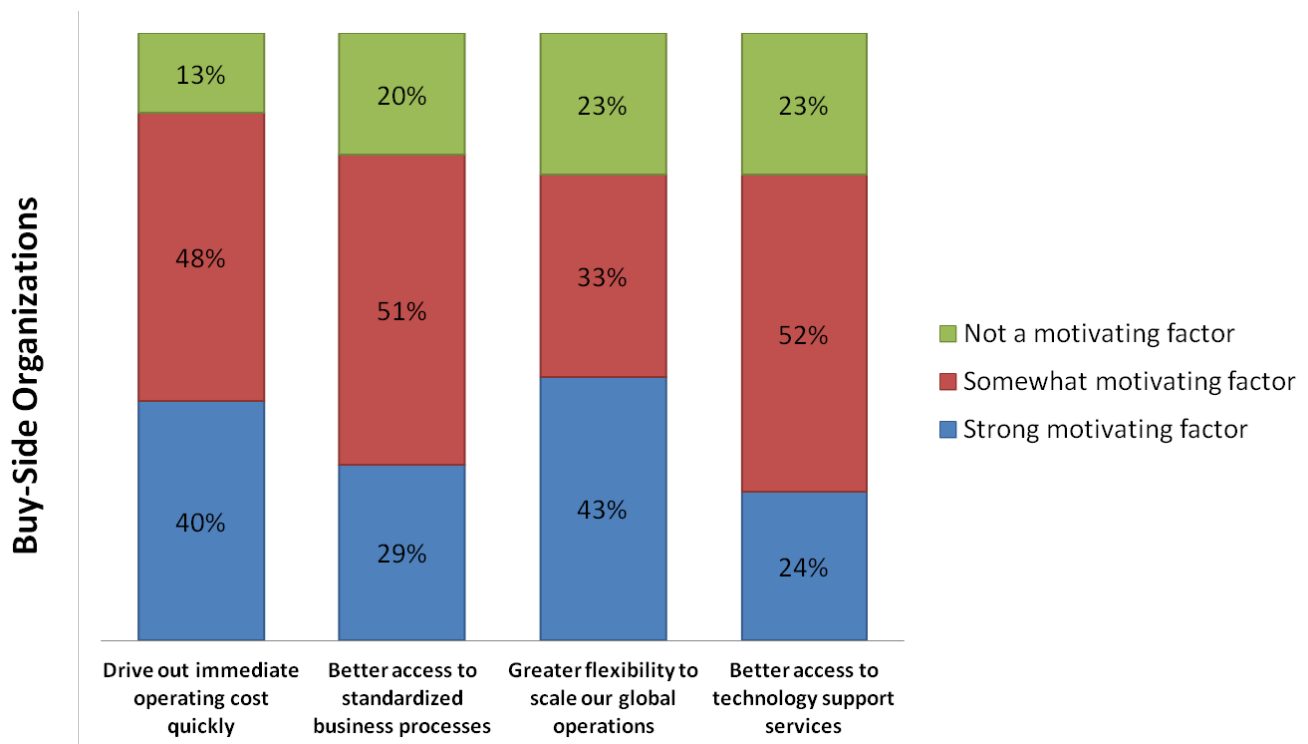
## Driving value through BPO

As part of complex enterprise-wide business transformation initiatives, companies have invested millions of dollars implementing, upgrading, and maintaining systems through armies of staff and contractors that frankly do not add value to an organization’s core business. They have leveraged offshore staff or outsourcers as a tactic to reduce this bloat, but neither strategy has delivered breakthrough outcomes. As a result, enterprises have become experienced outsourcers expert at slashing costs but not in delivering superior business outcomes.

From our research into end-to-end BPO deals, we have found that buyers are not looking for just cost savings. Organizations are sourcing for access to standardized, best-in-class business processes that they can configure without the need of a cadre of information technology (IT) consultants or specialist coders. They are sourcing for greater flexibility to scale global operations, with real end-to-end visibility, in an increasingly complex environment. They also want better access to technology support services. (Exhibit 2)

Sales compensation and related SPM outcomes can be delivered via a set of standard processes, with customization based on the client’s industry, products, and services. Such sourcing is attractive to BPO clients because it allows the internal sales operations function to move from maintaining systems and process administration to focusing on driving more value from the sales force.

**Exhibit 2: Drivers for Business Platforms: Cost, Standardization, Flexibility, and Technology Support**



Source: HfS Research 2011



## Three common drivers for outsourcing SPM

Our interviews with sales operations leaders about their SPM programs before they outsourced them identified a number of shared issues related to processes, technology, and people. Over and over again, these firms were dogged by commission errors (often overpaying), shadow accounting by the sales force (instead of making sales), and an inability to adapt incentive compensation policies in response to strategic shifts—issues that had resulted in too much time spent administrating and not enough time spent driving sales. In particular, the three issues that most commonly had a material impact on costs, revenues, and flexibility were the following:

60% of sales representatives' time is spent on activities unrelated to selling, not the least of which is shadow accounting.

- **Inflexible processes.** Organizations are looking to optimize their sales compensation plans, but many of the associated processes are too unwieldy and manual. As a result, when companies need to make plan changes they must develop substantial manual workarounds that tie-up staff and contractors. These sets of manual processes also introduce errors that in turn lead to overpayments. Although eliminating cost is an ever-present obligation, buyers are also focused on achieving greater flexibility to scale and support their expanding (and often global) operations. Even more significantly, in order to do so they are prepared to explore adopting standardized SPM processes to reduce the complexity of their own.
- **Inadequate technologies.** According to a recent [SPM-focused study](#) by CSO Insights, upwards of 60% of sales representatives' time is spent on activities unrelated to selling, not the least of which is shadow accounting, with reps constantly recalculating and verifying the accuracy of their payments. The ubiquitous, commonly used spreadsheet has become simply inadequate for supporting today's increasingly complex comp plans. These manually-based systems are hard to use and prone to errors, and they provide little actionable insight to help drive sales force performance and increase revenues.
- **Lack of process expertise.** Although sales compensation is a significant cost for many organizations, it also provides a set of tools to help outmaneuver the competition. Unfortunately, because people often end up in roles driven by organizational needs rather than career goals, many sales operations departments lack staff with the proper knowledge and experience to effectively administer the existing incentive compensation plan, let alone respond to business changes. Indeed, HfS's research indicates that companies that fail to optimize all aspects of their sales plans—from compensation to quotas, territories to channels—leave between 4% and 11% of their revenue potential on the table.

## Case studies of SPM BPO in action

To learn specifics on *how* and *why* organizations outsource SPM to a Business Platform provider, HfS Research interviewed three large North American-headquartered multinationals that have sourced through this delivery model. These organizations outsource their end-to-end SPM programs—inclusive of technology, people, and processes—to Synogy. The following case examples illustrate the situation prior to outsourcing, the solution they adopted, and the outcomes they have achieved.



## Case Study: A global industry leader sources faster commission cycles

### The Situation

The energy industry arm of a Fortune 10 conglomerate decided to change how it approached the management of its sales compensation when its homegrown solution was unable to support the strategic changes and transactional growth that accompanied a ten-fold expansion in the sales team.

- Issues with data quality and governance (including failing internal audits for Sarbanes-Oxley compliance) were an ongoing occurrence; the internally-built system functioned solely as a payment calculation engine, with the remaining sales compensation processes handled manually using spreadsheets.
- The frequency of known errors in payments grew significantly because the system was unable to accommodate the plan changes attached to increasingly complex sales strategies.
- Payment cycles were taking longer than three months to complete.

Recognizing that the volumes and complexities associated with the demands of a fast-growing global business required a new system, new business processes, and new ongoing capabilities, the company determined taking an outsourced approach to be the best means for accessing better technology and domain expertise.

### The BPO Solution

An end-to-end SCM BPO solution from Syngy currently supports the incentive compensation and MBO (management-by-objective) plans and related reporting for a global sales force of about 4,000. Syngy provides worldwide administrative support in a 24/7 model through its locations in India, Romania, Pennsylvania, and Arizona, now processing transactions from 56 countries and calculating commissions in more than 45 currencies through the Syngy-hosted system.

Moving to outsourcing resulted in an 80% reduction in the size of the internal retained team for a sales force that is five times bigger.

### The Outcomes

- **Reduction in number of people administering the process.** When the relationship first went live, the company had a staff of more than 20 people processing sales compensation data for 800 payees. Cost savings from moving to outsourcing included the elimination of nine employees and several contractors, which resulted in an 80% reduction in the size of the internal retained team for a sales force that is five times bigger.
- **Improved revenue management.** Six former spreadsheet-based business workflow processes, including order claims, dispute resolution, and payroll approvals, were also automated and optimized within the new solution framework. This eliminated data errors, instituted audit trails, ensured compliance, and expedited review cycles, thus resulting in revenue management improvements.
- **Elimination of payment errors.** Before outsourcing, the firm was either over- or underpaying more than 25% of its sales force. Since outsourcing, no payment errors have occurred.
- **Shortened payment cycle time.** Before outsourcing, the process of paying employees took 14 weeks. With the introduction of outsourced transactional processing and best-in-class managed services to the process, the payment cycle has been shortened to four weeks, which is a 70% reduction.



## Case Study: A pharmaceutical innovator sources process expertise

### The Situation

More than 10 years ago, a new US subsidiary of a global pharmaceutical company lacked enough people or sufficient competence to handle incentive compensation for its sales organization. The company outsourced the entire SPM process to Synogy to administer.

A subsequent merger with a larger pharmaceutical company produced \$8 billion in sales but created a new major sales incentive headache. With no direct line of control over a highly expanded set of new third-party data sources, data integrity issues began wreaking havoc with sales compensation plans, resulting in both longer payroll cycles and payment errors.

### The BPO Solution

With Synogy's help, the company established data controls and formalized its change control process. An end-to-end SCM BPO solution from Synogy currently manages the incentive compensation for 1,900 plan participants. It processes and reports nearly 60 million prescription-level, pharmacy, and account-based sales transactions each month and also performs alignments and sales crediting on these large data sets.

Over the last few years the company has never missed a payroll or over- or underpaid its sales force.

### The Outcomes

- **Timely and error-free payments.** Since the introduction of best-in-class processes and controls, the company has never missed a payroll or over- or underpaid its sales force.
- **Adaptability.** Leveraging the flexibility of the system and domain expertise of the Synogy staff allows the company to continually optimize the plan's product weightings and business rules, perform ad-hoc analyses, and adhere to its calendar of twice-yearly plan revisions.
- **Cost effective.** The company performs annual "cost build-up analyses" to determine if its outsourced approach to SPM makes sense financially (i.e., to see if it would cost less to perform the same set of processes in-house). The conclusion, by a significant margin, is that licensing software, hiring staff, and internally developing sales compensation domain knowledge would *not* make financial sense.



## Case Study: A health care company sources increased selling time

### The Situation

A division of a Fortune 100 health care services and IT company began a serious review of its approach to SPM as part of a company-wide business process reengineering effort. The overriding goal for the SPM project was to eliminate the operational obstacles that were detracting the sales force from selling time. Many of these obstacles were tied to the installed incentive compensation system (which, coincidentally, the vendor had slated for sunset).

- The use of spreadsheets to field inquiries from the sales force was rampant, with the number of manual processes and instances of duplication in effort both steadily growing. This presented a major resource constraint on a sales operations organization that was already lacking in knowledgeable support personnel.
- There was total distrust in the accuracy of the existing incentive compensation system. Shadow accounting was rife, and creating reports was cumbersome, resulting in less time devoted to sales activities.

Acknowledging that internal systems and processes were insufficient, the company decided to outsource its entire SCM function.

### The BPO Solution

An end-to-end SCM BPO solution from Syngy currently supports the incentive compensation and related reporting for 3,800 sales associates and agent-channel representatives.

Conservatively, the firm reduced its costs by 10% by moving to an outsourced solution.

### The Outcomes

- **Reduction in operational costs.** Conservatively, the firm reduced its costs by 10% by moving to an outsourced solution, including redeploying two internal resources that had managed the former on-premise system. A need for fewer plan administrators generated \$550,000 in direct cost savings, and the elimination of software maintenance expenses reduced operating costs by another \$300,000 per year.
- **Increased process automation.** Salespeople can log on, access contract details, submit inquiries, see progress toward their goals, and review their commission statements quickly in one place. In addition, the system supports frequent plan changes, which, along with quota changes, can be automatically communicated in a consistent fashion to the sales force.

83% of the field and 100% of the analysts were satisfied with the new solution.

- **Improved satisfaction.** A real improvement in monthly payroll processing time and accuracy has resulted in increased sales force confidence in the incentive compensation system—a metric that was once so dire it could be linked to employee turnover. Nine months into the process, an internal survey revealed that 83% of the field and 100% of the analysts were satisfied with the new solution.



## Building a business case for SPM BPO

In this study, HfS found that outsourcing SCM resulted in hard cost savings of 10 to 30 percent. Although initial ROI models tend to still focus on cost savings, moving to an agile set of business processes can also impact revenue generation and top-line growth and as such should be measured in any ROI review.

Our research has shown that when developing an ROI model, every organization builds a slightly different model based on its circumstances. Firms will leverage net present value or internal rate of return or models such as total cost of ownership. Despite the variability in financial modeling, organizations universally need to identify the potential benefits, costs, and risks in moving to an outsourced SPM offering.

- Costs include ongoing operating expenses for software and services, implementation (though considerably less than for a self-managed or installed solution), and training; and write-downs for existing stranded or non-depreciated capital assets associated with existing SPM systems.
- Calculation of risks provides a range of potential outcomes. Negative risk outcomes with outsourcing may include provider lock-in and change management issues. Positive outcomes include mitigation of risk related to personnel recruiting, retention, and attrition; attainment of the outsourcer experience levels and employed methodologies/processes that have been honed from having many customers; and increased levels of sales rep confidence in their incentive compensation reports and payments.
- Soft benefits include improved use of sales force time that may increase sales; global standardization of processes; faster rollout of plan and process changes; improved visibility and analytics; and an ability to change sales compensation programs in a far more rapid manner.
- Hard benefits include savings on outsourced staff (salary, fringe benefits, and space); improved use of working capital; reduced quantities of staff due to automated workflow and reporting; lower internal IT costs; reduced compensation payment processing costs; reduced over/underpayments; and any corresponding payment corrections processing that plagued previous SPM systems.

## Conclusion

We believe Business Platforms—which consolidate infrastructure, middleware software, labor, and process/domain expertise (including future investments) and invoice them as a subscription-based operating expense— form the next evolution of the services industry. Consolidating responsibility for the IT and the business process through a single, accountable expert services provider reduces finger-pointing between multiple parties and allows the Business Platform provider to make continual investments in people and technologies that enhance business results. They represent the true fusion of the benefits provided by standardized business processes, cloud computing, and SaaS in a singular managed service delivery model.

In examining organizations that have been using a Business Platform provider for SCM for many years, it is clear that having an outsourcer that continually improves the software applications, invests in domain knowledge and best practices, and offers value-added services such as change management and consulting results in long-term ROI that not only reduces operating costs but positively impacts revenues.

Companies that want to cut out the inadequacies and costs associated with manual, inflexible, or error-prone SCM processes; need greater visibility into sales force performance; and seek to streamline sales operations through best practices and continuous improvement should take a serious look at SPM outsourcing.



## Advice from the trenches

Outsourcing SPM can provide numerous benefits, including cost savings, process standardization, improved analytics, and flexibility. We asked the sales operations leaders in these case studies what advice they could give other organizations considering outsourcing SPM.

### **Consider the size and complexity of your sales compensation requirements**

Look at the size of your internal operation; the costs of implementing, managing, and maintaining software; hiring and retaining administrative staff; and the complexity of your sales and compensation models. As one interviewee said, “Outsourcing may be overkill if you have fewer than 100 salespeople and don’t have a rapidly changing, multiproduct sales model that is highly dependent on variable compensation.”

### **Analyze the underpinning technology operations**

Simplifying IT systems is the most popular initiative to tackle organizational complexities. Software-as-a-service (SaaS) technology can provide a platform upon which complex processes can be quickly created, fine-tuned, and managed on the organization’s behalf. SaaS solutions also provide the ability to rapidly scale business operations. An interviewee articulated that, “Synogy’s SaaS model was particularly appealing because it offers a single-tenant, multi-instance architecture option, in addition to a multi-tenant architecture.”

### **Invest heavily in training of both the services provider and your sales team**

One interviewee shared with us that the company’s sales compensation analysts spent four weeks on site at Synogy’s offices in Pune, India, thus ensuring a smooth transition for both core internal and Synogy staffs. The client then tasked Synogy to be involved in the training and presentation of the new solutions to its global sales forces. Synogy’s dedicated project team traveled to Europe, Asia, Australia, and South America to train the client’s analysts, sales reps, and management teams on the system.

### **Understand the services provider’s full spectrum of competencies**

Assess the level of access to value-adds available from the SPM services provider, such as plan rollout assistance, quota setting, forecasting, industry benchmarking, and change management. With such consultative and administrative support, you can direct your energies to building stronger relationships with the stakeholders that feed and extract value from the SPM function.

### **Evaluate services providers closely**

Organizations looking at outsourcers to take responsibility for their SPM processes should develop a detailed understanding why they are outsourcing and who they are outsourcing to. All the companies that we interviewed conducted a detailed RFP and sourcing evaluation. Ensure that the RFP focuses on key performance indicators (KPIs) that support your business goals (e.g., cost, flexibility, or improved revenue generation) and that the provider has adequate assets to achieve this (e.g., software, datacenter services, implementation services, and outsourcing services).



## About the Author

### Robert McNeill

Robert McNeill is a Research Vice President focused on cloud business services, IT management and effective sourcing strategies for end-user organizations and service providers. McNeill's main focus at HfS is delivering research, thought-leadership, practical advice, and imparting real-world Cloud services experience to buy-side clients and service providers on what really matters — how to execute Cloud business strategy in a manner that creates real business value. McNeill will examine the industry dynamics driving business utility solutions, as the boundaries between Cloud Computing, Business Process Outsourcing and IT infrastructure services continue to blur. Prior to HfS, Robert was VP Research/Consulting for Saugatuck Technology, VP Strategy/Marketing for SaaS vendor Service-now.com, a management consultant with Deloitte Consulting advising organizations across North America on IT and business process sourcing strategies and a Principal Analyst with Forrester Research. He is a contributing author of a book produced by the Institute of Directors in the UK on software asset management. Robert holds a master's degree in European business and a bachelor's degree in business studies from Cass Business School, City University, UK.

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## About HfS Research

HfS Research ([www.HfSResearch.com](http://www.HfSResearch.com)) is the foremost analyst advisory organization and social networking community, focused on helping enterprises make complex decisions with their business process operations governance, IT services, outsourcing and shared services strategies.

With more than 60,000 subscribers, HfS Research provides the largest, most impactful and frequently visited collaborative community platform in the global services industry, providing rapid and insightful commentary, analysis and debate of enterprise outsourcing and shared services dynamics. The organization is unique in the fact that it integrates personable social networking with market research analysis and expert advisory services.

In 2011, HfS was awarded **Outsourcing, BPO and Services Analyst Firm of the Year** by the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals, and runner-up for overall **Analyst Firm of the Year**.

Led by recognized industry expert Phil Fersht, the HfS Research team is a multi-disciplinary group of analysts across North America, Europe and Asia/Pacific regions, with deep domain knowledge in business process outsourcing, information technology services and shared services strategies.

Launched in 2007, HfS Research's acclaimed blog **Horses for Sources** has more than 120,000 monthly visitors across the global services industry, and is widely-recognized as the leading destination for collective insight, research and open debate of industry issues and developments. The HfS LinkedIn community, The BPO and Offshoring Best Practices Forum, is thriving with over 14,500 industry professionals sharing views and information daily. You can access information about HfS at [www.HfSResearch.com](http://www.HfSResearch.com) and on Twitter at [www.twitter.com/horses4sources](https://www.twitter.com/horses4sources).

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