
How to ensure your incentive scheme is driving customer centric behaviour

eyeforpharma Panel Session

Wednesday 2nd September, 2009
Sydney, Australia

Panelists:

Urs Moeri, Associate Director Commercial Effectiveness, **Schering-Plough**

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Introduction

As part of the Incentive Scheme panel session, the panelists developed a series of detailed questions that were asked to the audience. The audiences responses were captured electronically and a detailed analysis of these are presented in this report (by audience role were applicable). The analysis and report have been undertaken by Vedere Group.

Questions Covered

Does your company have additional reward / retention scheme such as Rep of the Year or similar?

How satisfied are your reps with your current Incentive Scheme?

Main Parameters used to determine Incentive Payments

My company sets Rep sales targets at the following geographical levels

Sales Related Measures used

Main Non-Sales KPIs / Activity Related Measures used

Types of Rewards

Frequency of Incentive Payments

Frequency of Target Setting / Review

How often are the principles of your Incentive Scheme being reviewed and adjusted?

Do your Sales Targets change throughout the year?

Lag between Availability of Results and Payment of Incentives

Which aspects of your Incentive Plan have you outsourced

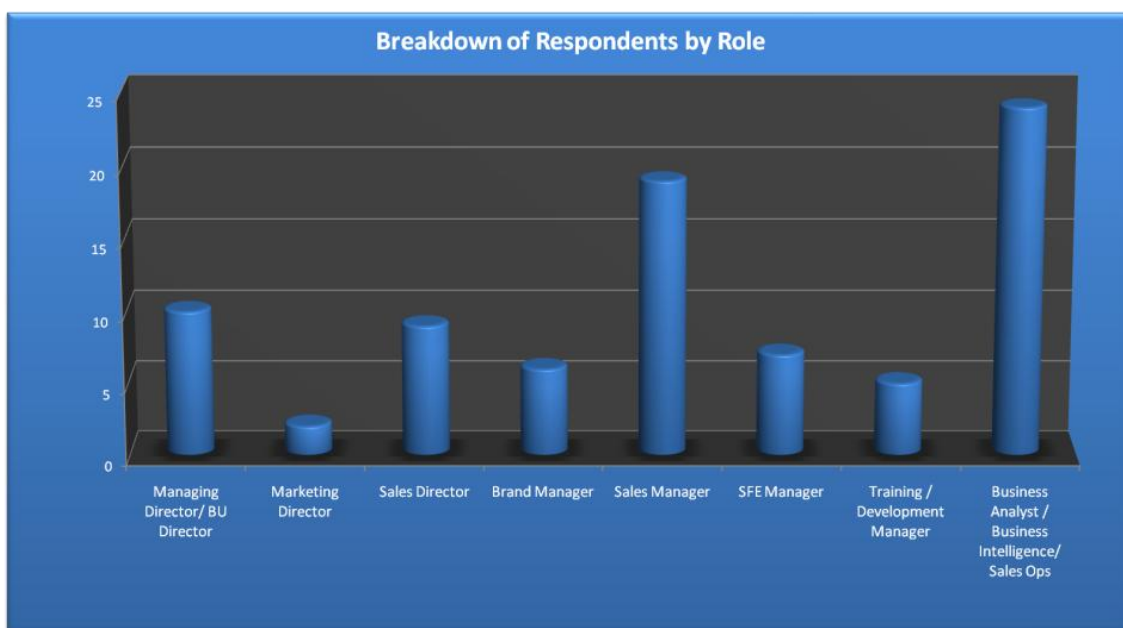
Sales Force Incentive Scheme - Hot Topics

Survey Results

Breakdown of respondents by Role

82 respondents were included in the survey analysis.

- 26% identified themselves as Director Level or above
- 23% identified themselves as Sales Managers
- 44% identified themselves as SFE, Training/ Development, Sales Operations/ Business analysis/ Business Intelligence roles



The vast majority of respondents that were included in the analysis are Managing Directors, Business Unit Directors, Sales Directors, Sales Managers and Business Analyst/ Business Intelligence Managers. Given the absolute number of respondents and the relevance of their roles to the Incentive scheme process, this makes the results of this survey highly relevant.

Does your company have additional reward / retention scheme such as Rep of the Year or similar?

Fairly universal acknowledgement that some form of additional reward or recognition scheme beyond financial remuneration is seen as important to incentivise Sales Reps, with 92% of overall respondents stating they have some additional reward or retention scheme in place.

Details of the types of rewards are included on page 10 of this report.



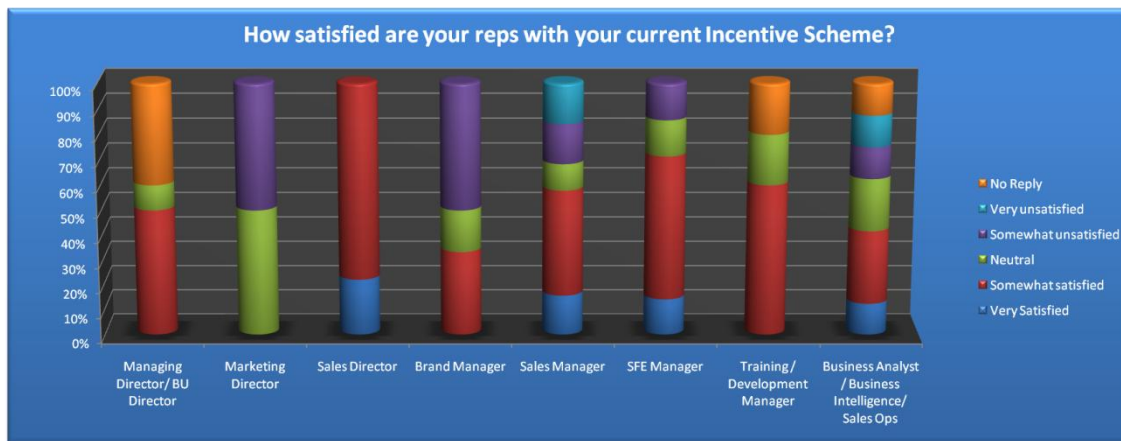
How satisfied are your reps with your current Incentive Scheme?

The responses to this question were somewhat variable depending on the role of the respondent.

Interestingly, 42% of Sales Managers stated that they thought their reps were *neutral* (10%), *unsatisfied* (16%) or *very unsatisfied* (16%) with the current incentive scheme.

52% of Business Analysts/ Business Intelligence/ Sales Op respondents were neutral or critical of the Sales Forces' perception of the incentive scheme, stating they thought their reps were *neutral* (24%), *unsatisfied* (14%), or *very unsatisfied* (14%) with their current incentive scheme.

Sales Directors impressions all tended to the other end of the scale, with 22% stating they feel their reps are *very satisfied* or *somewhat satisfied* (78%).



An interesting approach to analysing these results is to apply Frederick Reichelds' **Net Promoter Score** (NPS) to them (a summarised explanation of the NPS has been included below). Based on the results from each Respondent Group, the current Incentive schemes used across the industry would achieve NPS's as follows;

Role	% of Promoters (1) (Very Satisfied)	% of Detractors (2) (Neutral – Very Unsatisfied)	NPS = (1)-(2)
Sales Directors	22%	0%	22
Sales Managers	16%	42%	-26
SFE Managers	14%	29%	-14
Business Analysts (et al)	14%	52%	-38

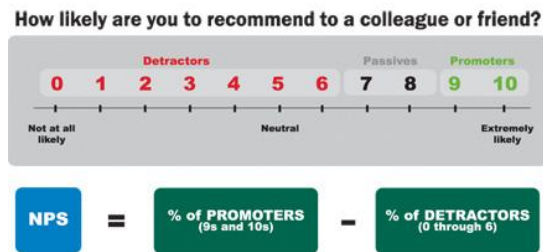
Based on the NPS's calculated above, these results would suggest that current incentive schemes are not having a positive impact on Sales Force retention or loyalty to their organisation. This should give us all cause for further thought and certainly warrants the question being put to the Sales Force via an internal survey (using Reicheld's NPS methodology) to see if these results mirror internal customer perception.

Net Promoter Score

Frederick F. Reicheld

NPS is based on the fundamental perspective that every company's customers can be divided into three categories: Promoters, Passives, and Detractors. By asking one simple question — How likely is it that you would you recommend [Company X] to a friend or colleague? — You can track these groups and get a clear measure of your company's performance through its customers' eyes. Customers respond on a 0-to-10 point rating scale and are categorized as follows:

- **Promoters** (score 9-10) are loyal enthusiasts who will keep buying and refer others, fuelling growth.
- **Passives** (score 7-8) are satisfied but unenthusiastic customers who are vulnerable to competitive offerings.
- **Detractors** (score 0-6) are unhappy customers who can damage your brand and impede growth through negative word-of-mouth. To calculate your company's Net Promoter Score (NPS), take the percentage of customers who are Promoters and subtract the percentage who are Detractors.

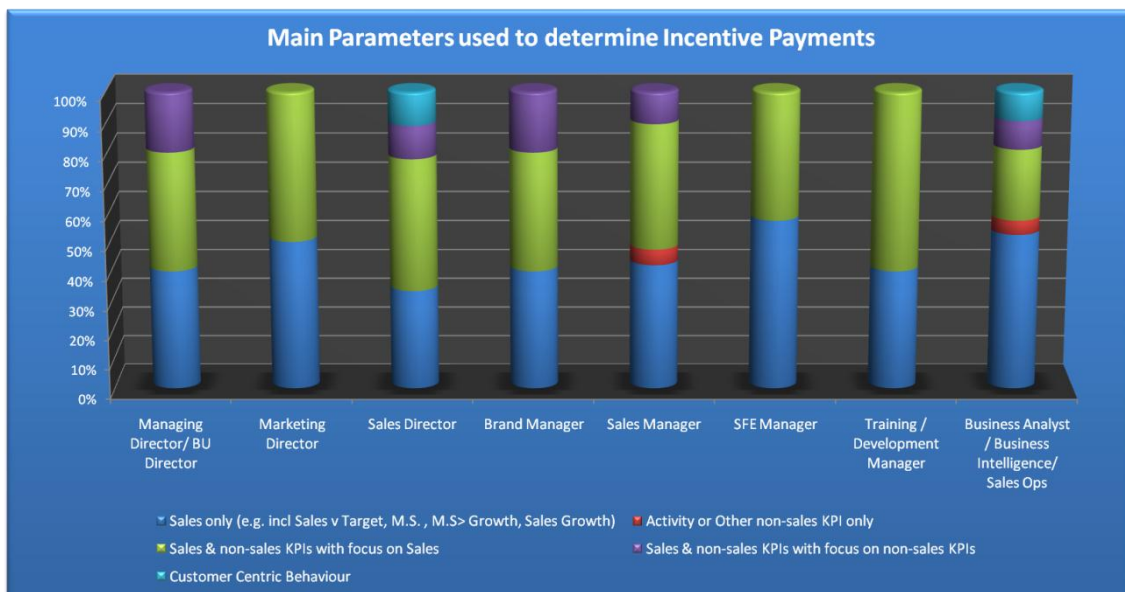


For further information, refer to <http://www.netpromoter.com/np/calculate.jsp>

Main Parameters used to determine Incentive Payments

This question was phrased as “What are the main parameter(s) used to determine your Incentive payments?” Respondents were only able to select a single response.

45% of total overall respondents stated that only sales related parameters are used to determine



Incentive payments. These might include Sales vs. Targets, Market Share, Market Share Growth, Sales Growth etc (all relates to sales). See page 7 for detailed breakdown of the metrics used.

48% of total respondents stated that they use a combination of sales and non-sales KIs in their incentive scheme. Sales related KPIs dominated these responses (38% of total respondents) versus 10% of total respondents who suggested that non sales related KPIs dominated their incentive scheme. See page 8 for detailed breakdown of the non-sales metrics used.

2% of total respondents stated that non sales KPIs are exclusively used (e.g. Activity and other non sales related measures) and 2.5% of total respondents stated that Customer centric behaviour metrics solely drove their incentive scheme payments.

The distribution of responses was reasonably similar by role as seen in the graph on the previous page.

My company sets Rep sales targets at the following Geographical levels

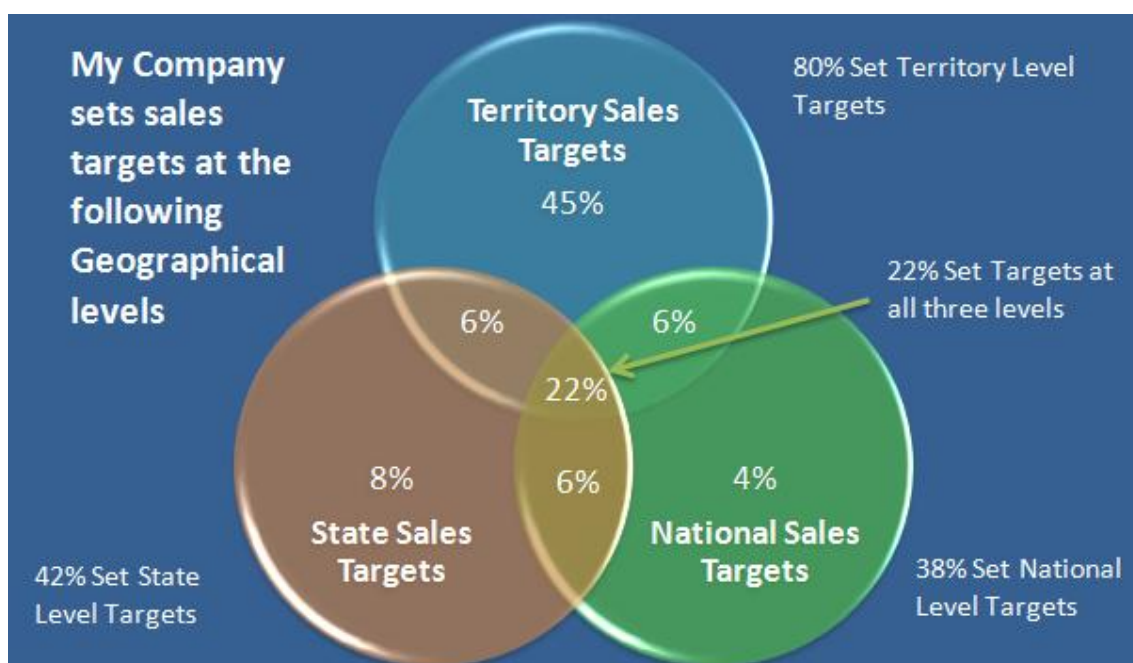
This question was phrased as “Please tell us the levels that your company sets Representative sales targets at – Confirm all geographical levels that apply).

Of the 80% of respondents who set territory level sales targets, 45% do so exclusively.

42% of respondents set State level targets, with 8% of the total respondents saying they do so exclusively.

38% of respondents set National level targets, with just 4% saying they do so exclusively.

22% of total respondents set Targets at all three levels, while 18% choose 2 of the three geographical levels to set their targets (as shown in the Venn diagram below).



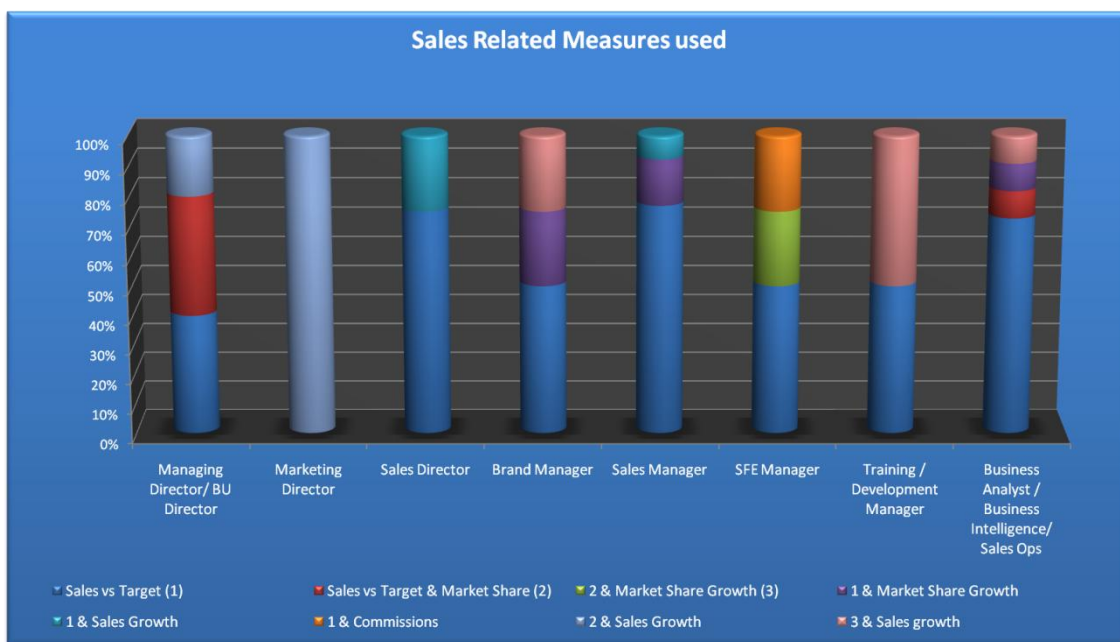
Sales Related Measures used

This question was phrased as “Please tell which of the following sales related metrics are used in your Incentive Scheme – select as many of these that apply to your situation.

The selection of responses provided the potential for mis-representation of the results. 40% of respondents stated they use a combination of the metrics suggested, but because we cannot identify ‘what’ combination of metrics they use, we have undertaken further analysis excluding the responses of this subgroup.

On reviewing the results for the other 60 % of respondents we find;

- 100% use % Sales to Target
 - 60% stated **% Sales to Target** was the ONLY sales related metric they use
 - No other individual metric was identified as the sole metric used by any organisation
- 20% use Market Share
- 18% use Market Share Growth
- 16% use Sales Growth
- 2% use Commissions (e.g. \$ per pack)



Main Non-Sales KPIs / Activity Related Measures used

This question was phrased as “Please tell us which non-sales related metric was most relevant in your incentive scheme”. Respondents could only select one option.

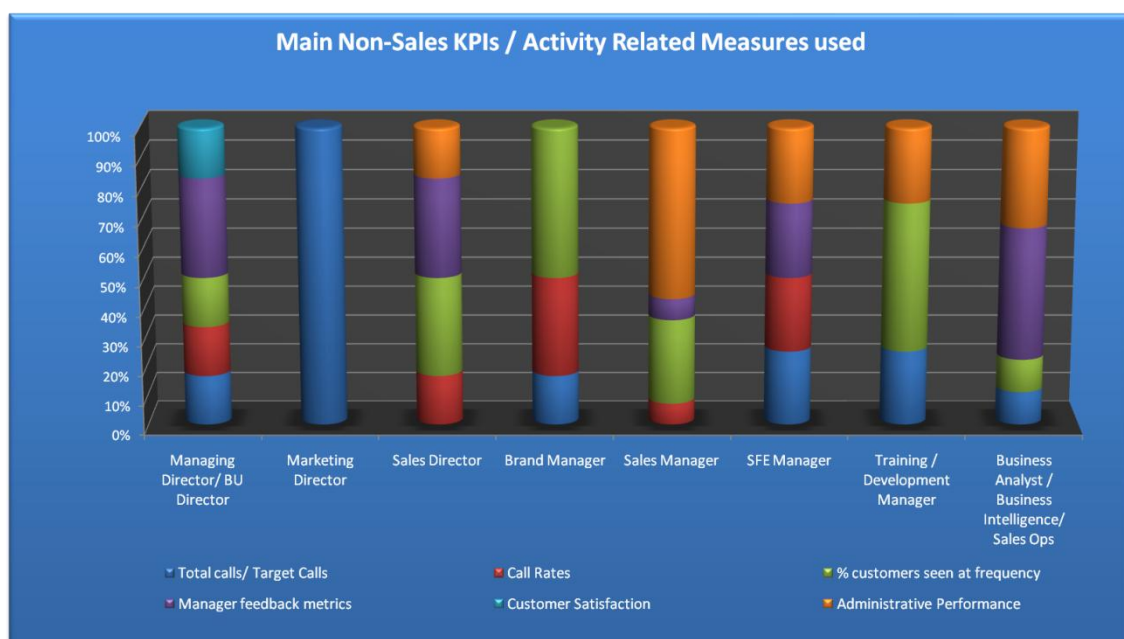
Unlike sales related measures in the previous question, the spread of answers to this question reflect very different approaches to which non- sales KPIs are being adopted by different respondents.

While overall results suggest that 24% of respondents see volume based activity as critical (As measured by Total Calls and Call Rates), this was not strongly mirrored in the responses from Sales Directors or Sales Managers (17% & 7%). Their results were somewhat reflected in the view of Business Analysts, but 50% SFE Managers felt that Volume related activity metrics were most important, so clearly some variance in opinion there.

% Customers seen @Frequency was emphasised as the most important non activity related KPI by 33% of Sales Directors and 29% of Sales Managers, but that was not mirrored by the Business Analysts.

Manager Feedback metrics scored high with Sales Directors and Business Analysts but not with Sales Managers. 57% of Sales Managers felt the most important non-sales related metric was administrative performance.

	Overall	Sales Directors	Sales Managers	Business Analysts	SFE Manager
Total Calls/ Target Calls	12%	0%	0%	11%	25%
Call rates	12%	17%	7%	0%	25%
% Customers seen @ frequency	26%	33%	29%	11%	0%
Manager feedback metrics	20%	33%	7%	44%	25%
Team feedback metrics	0%	0%	0%	0%	0%
Customer Satisfaction	2%	0%	0%	0%	0%
Administrative Performance	28%	17%	57%	33%	25%



Types of Rewards

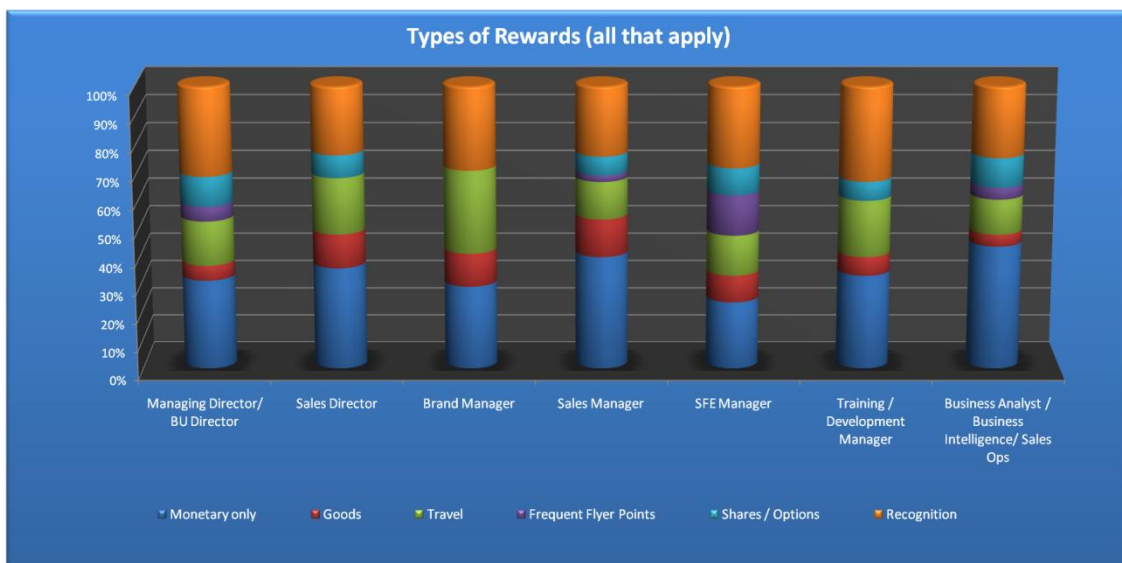
This question was phrased as “Please tell us which types of rewards are offered to Sales Reps by your company’s Incentive Scheme – select as many of these that apply to your situation.

The selection of responses provided the potential for mis-representation of the results. 40% of respondents stated they use a combination of the metrics suggested, but again, because we cannot identify ‘what’ combination of metrics they use, we have undertaken further analysis excluding the responses of this subgroup.

When analysing the type of reward by the number of respondents who selected each reward type, the results are as follows;

- 93% provide Money as a type of reward
- 70% stated Recognition was a type of reward
- 42% stated Travel
- 23% stated Goods
- 15% stated Shares/ Options
- 9% stated Frequent Flyer Points

The graph below shows the % of responses by role and reward type as a % of the total responses by each role. There is relative agreement across the roles as to the types of Rewards that are provided to the Sales Force.



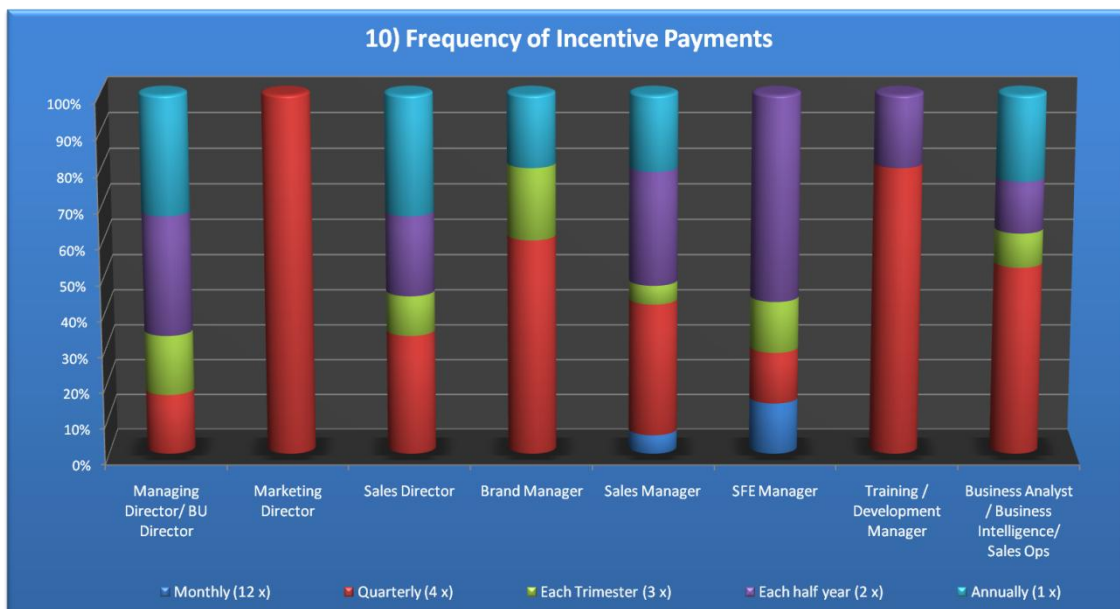
Frequency of Incentive Payments

In this question, the audience was asked to select the frequency of Sales Rep Incentive Payments.

When analysing the results overall and by roles we see differences in payment frequencies by respondents within a role.

If we look at Sales Managers responses, we see that 37% of this group offers their Reps Quarterly payments. A further 32% provide 6 monthly payments and 21% favour 1 annual payment. A small percentage of these respondents (5%) offer their Sales Reps monthly payments, while the remaining 5% provide 3 payments per year.

	Overall	Sales Directors	Sales Managers	Business Analysts	SFE Manager
Monthly (12 payments)	3%	0%	5%	0%	14%
Quarterly (4 Payments)	42%	60%	37%	52%	14%
Each Trimester (3 Payments)	10%	20%	5%	10%	14%
Each Half Year (2 Payments)	25%	0%	32%	14%	57%
Annually (1 Payment)	21%	33%	21%	24%	0%



Frequency of Target Setting/ Review

This question asked respondents to identify how frequently they set incentive targets, with one option being allowed.

There was some disparity in results when reviewing these by role (as seen graphically below), but if we focus on individual roles we see the following;

1. 24% to 53% of respondents (depending on their role) state they review and set targets only on an annual basis (infrequently)
2. Nearly 50% of respondents in Sales or Analyst roles review or change their targets every 6 months (moderate frequency)
3. Less than 25% of respondents in Sales or Analyst roles review or change their targets more than 3 time a year (very frequently)

	Overall	Managing Director/ BU Director	Sales Directors	Sales Managers	Business Analysts
Annually	33%	50%	¹ 33%	53%	24%
Semester (2 X per year)	48%	33%	² 44%	42%	48%
Trimester (3 X per year)	10%	17%	³ 22%	5%	10%
Quarterly (4 X per year)	10%	0%	0%	0%	19%



How often are the principles of your Incentive Scheme being reviewed and adjusted?

This question talks to the frequency of review and adjustment of the principles of the incentive scheme during the course of time.

- 33% of Sales Directors indicate that review is taking place with major changes every year
- 56% of this group suggest that while the review is annual, the changes are minor
- 11% of this group stated that review and adjustment take place more than once in the period of a year



Do your Sales Targets change throughout the year?

This question asks about whether sales targets change during the year.

25% of total respondents stated that the Targets never change. This % mirrored the opinion of Sales Directors.

28% of total respondents stated that Targets could change if sales were behind budget. Interestingly, none of the Sales Directors represented in the survey shared that view, while 16% of the Sales Managers did.

48% of total respondents stated that changes to sales targets would only take place in the event of extenuating circumstances. A higher % of Sales Directors (63%) and Sales Managers (67%) agreed with this approach.



Lag between Availability of Results and Payment of Incentives

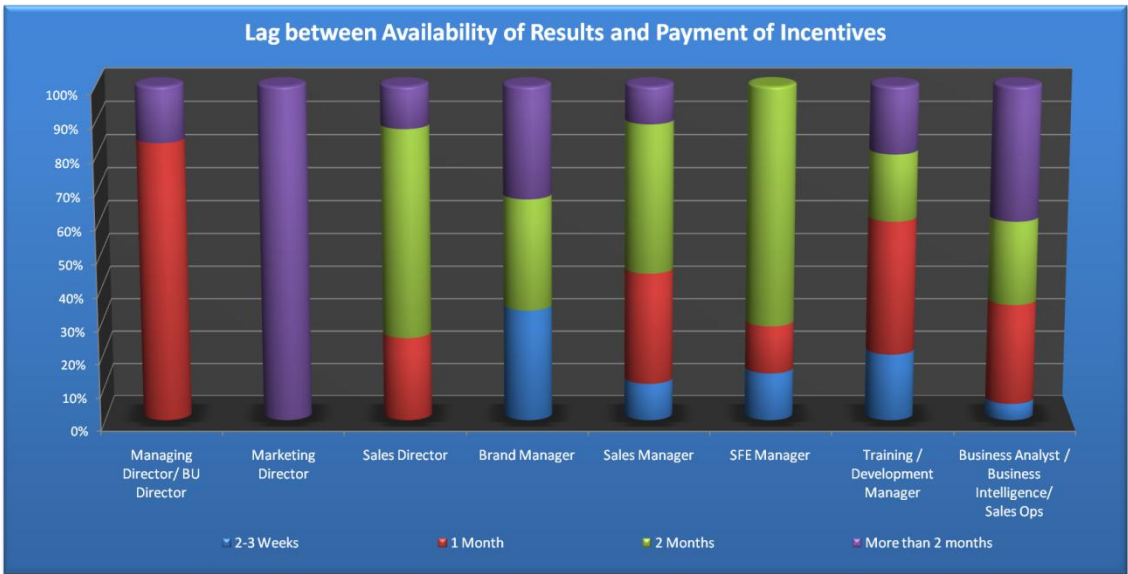
This question sought to identify the time lag between the availability of incentive scheme results and the payment of any incentives.

83% of Managing Directors / Business Unit Directors stated these were paid within 1 month, while the remaining 17% stated that payment was more than 2 months.

63% of Sales Directors indicated that payment was 2 months after results, with only 25% suggesting it was 1 month and the remaining 13% suggesting 2 months as the standard.

Sales Managers were more split, with 44% indicating payment was 2 months, 33% indicating 1 month and 11% each indicating 2-3 weeks or 2+ months.

Business Analysts were more split, with 40% suggesting more than 2 months and 35% at the other extreme of 2-4 weeks. The remaining 25% suggesting 2 months was the norm.

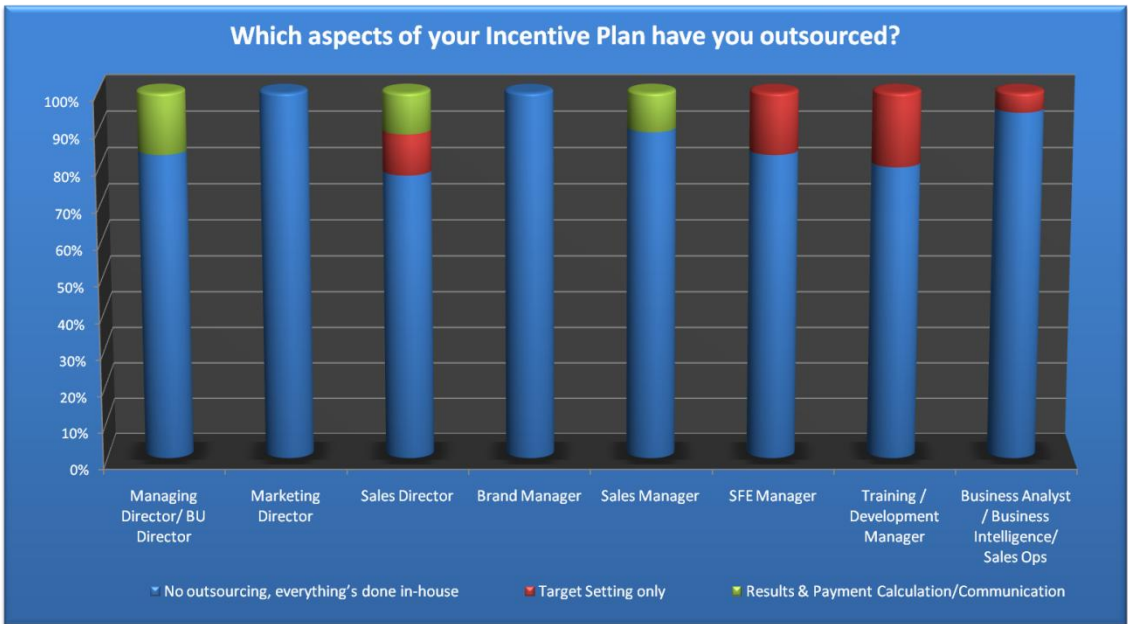


Which aspects of the incentive scheme have you outsourced?

This question asked about the practice of outsourcing any or all aspects of the Incentive scheme.

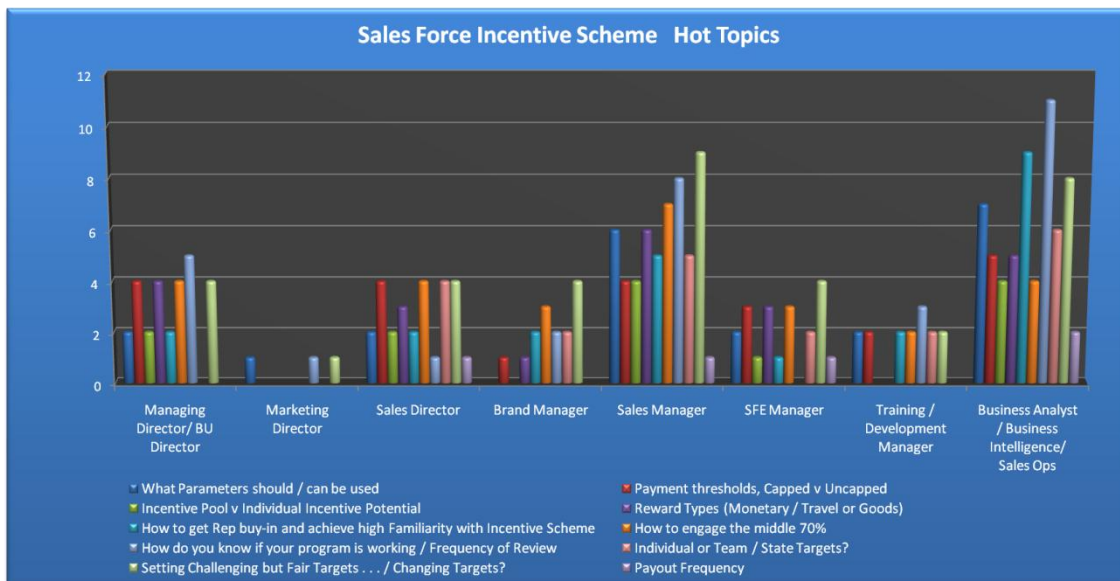
78% of Sales Director (and 89% of total respondents) stated that no aspects of the scheme were currently outsourced. 11 % of Sales Directors suggested that Target setting was being outsourced.

Similarly, 11% of Sales Directors acknowledged that Results, Payment calculations and Communication were being outsourced.



Sales Force Incentive Scheme Hot Topics

The question of 'hot topics' was posed to the audience, with the option that each participant select their top 4 choices.



The hottest topics were not the same for all Roles (see graph below), but consistently high scores were achieved for the following;

- Setting challenging but fair targets... / changing targets
- How do you know if your programme is working/ Frequency of review
- How to engage the middle performers in your Sales Force (the middle 70%)
- What parameters should/ can be used
- How do we get Rep buy-in and achieve high familiarity with the Incentive scheme

Further opportunity for detailed discussion around these and other topics will no doubt be welcomed by participants in future eyeforpharma conferences.

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The data in this report was collected at the eyeforpharma Sales Excellence & Business Intelligence Conference in September 2009. This 2 day conference brought together over 70 senior-level executives from big, medium and small pharma in Australia to discuss and solve problems to common challenges such as how to provide more value to our customers. eyeforpharma will be running the conference again in September 2010 and for more information on how to get involved, either as a speaker, sponsor, exhibitor or delegate, contact Izzy Wakeling at iwakeling@eyeforpharma.com or +61 (0) 3 9938 1202 or visit www.eyeforpharma.com/au