CyCom Solutions, Inc.
Case Study: Is Our Bonus Plan Working?

One of the trickiest issues in pharmaceutical sales involves setting sales quotas and incentives. Determining realistic goals, driving appropriate behavior and keeping the troops motivated sometimes appear to be at odds with each other. Incentive/comp plans are continual works in progress that require monitoring along with the information and insights necessary for a productive dialog between the various stakeholders. In the following case study we will outline an analytical approach that provides us with some of the facts necessary to keep the dialog moving in the right direction.

The Scenario:
Reward High Performance While Being Fiscally Responsible

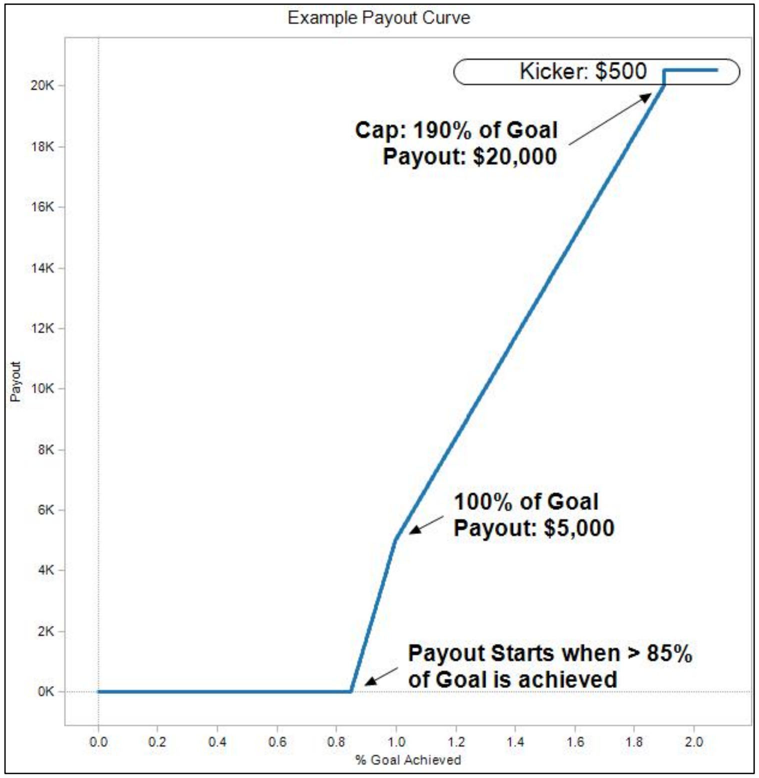
Let us assume the Healthy Widgets Company has just launched a product in a new market into which the company is trying to expand. We have just completed the first quarter post launch and are trying to see how our original bonus model stacks up to the real world.

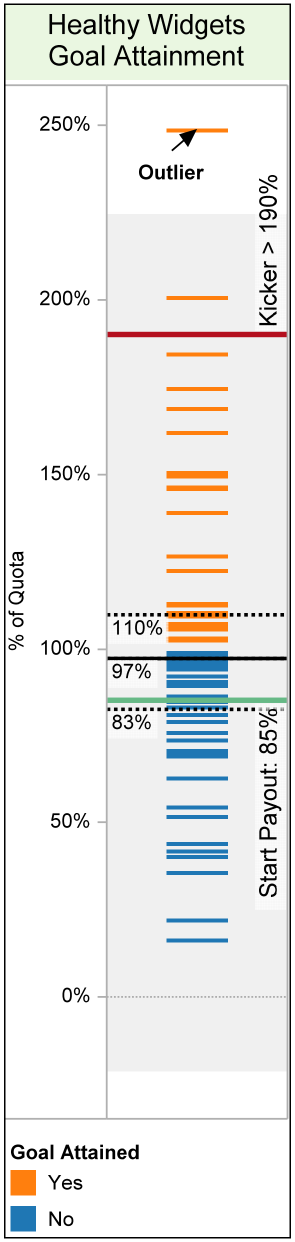
While developing the incentive/comp plan, our primary concerns focused on how to:

- reward high performance
- manage the risk of paying out too much
- create enthusiasm and excitement.

Going into the launch we knew that market potential and expected sales were difficult to forecast in some geographies. We wanted to provide some quick wins to generate excitement while also encouraging sales beyond goal attainment. The incentive/comp advisory team recommended a mixed model, in which payout would start at a certain percentage below goal and continue to rise after the goal had been achieved. Much discussion ensued around where the top payout should occur. The consensus eventually settled on offering a “kicker” – a fixed dollar amount – if sales exceeded a certain percentage above goal. As bonus plans go, this was not the easiest plan to explain. Given the uncertainties, however, it was considered to be the best solution.

The ***Example Payout Curve*** to the right illustrates the general approach our model takes. In real life, payout numbers have to be weighed against many factors, including sales, product priorities, retention of top talent and the company’s ability to realize profits.





Reviewing the Results:
Our General Approach Was Sound, Some Details Could Be Improved

As a company, we exceeded sales goals. However, many sales associates questioned the validity of their individual goals – which seemed to be too high for some and too low for others. To gain an overview, let us examine the chart on the left:

- Each line represents a territory – Note: some territories performed so closely to each other that they appear to form thick lines.
- The line color indicates whether a territory achieved its goal.
- The red and green colored lines show where the Kicker and Payout start.
- The dotted lines show the 25th and 75th percentiles for goal achievement (respectively, at 83% and 110% of goal).
- The black line at 97% shows the median goal attainment (50th percentile).

A quick look at the graph shows that our general approach was sound:

- we avoided excessive payouts – two territories qualified for the kicker
- we encouraged sales beyond goal – nearly half the territories exceeded their goal
- we provided some quick wins – nearly one quarter of territories received a payout below goal

Areas of Concern:

- more than 50% of territories did not achieve goal
- no payout for more than 25% of territories
- a very large performance gap between the bottom and top performing territories
- unusually high performance of one territory (the “Outlier”)

Possible Explanations & Causes

- data issues
- goal assumptions

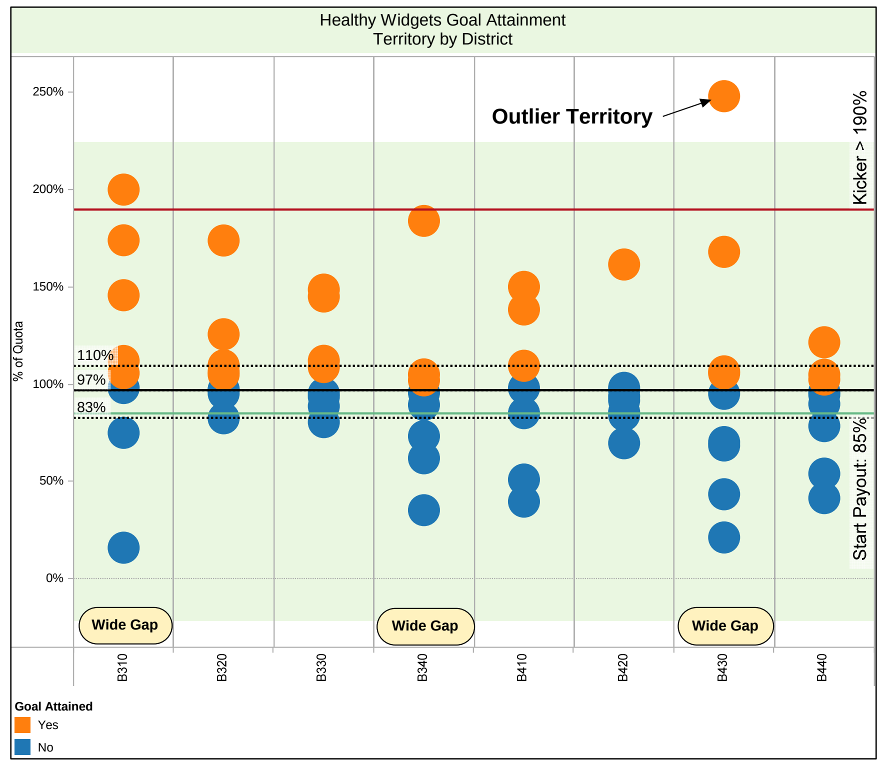
Other explanations, such as territory design, competing product priorities and market forces, are also possible. For today, let us focus on data issues and goal assumptions.

Possible Explanations & Causes

Data Issues: Often we are tempted to blame the data first. Since most pharmaceutical sales compensation data comes from a “black box” that makes it difficult to address specific rep questions, pursuing “data issues” can be frustrating and unsatisfying. However, the more we know about the market and how our data is collected and processed, the better we can anticipate and manage problems.

Potential causes for data issues vary with the product, the market and the data source. For example, specialty and niche products may be handled by a small number of distributors whose data may be unavailable. With other products we may be unable to demonstrate that all sales are accounted for when a pharmacy chain stops supplying data. Data issues also arise from changes in how data is collected and processed over time, such as when projection methodologies or data suppliers change during the course of an incentive program. Of course there also is the possibility of human error.

Since the national view revealed a wide gap in goal attainment, let us find out whether this also occurs at the district level. The dots in the chart to the right represent individual territories within a district. The green shading indicates whether a territory’s quota achievement is statistically reasonable. Here are three examples for using this graph to focus our data forensics efforts:

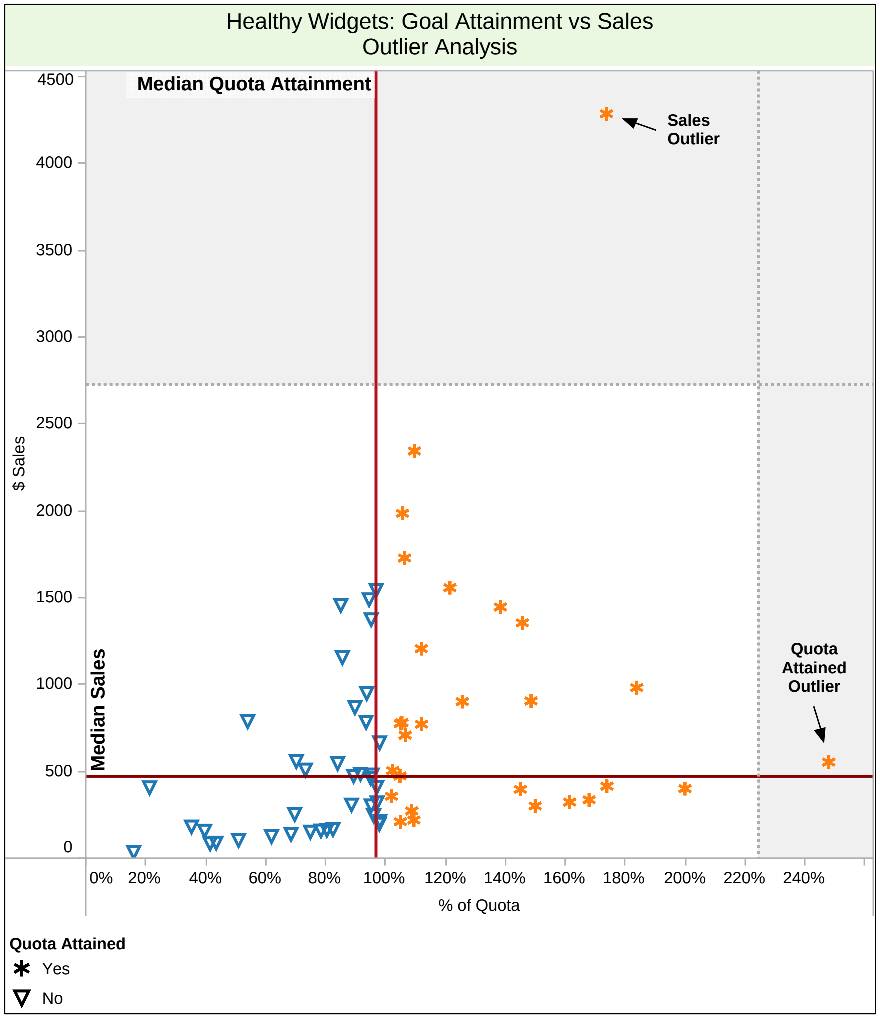


- Three out of eight districts show a wide gap between the top and bottom performing territories. We should find out whether these districts share any similarities that could explain these gaps.
- Maybe we used more than one data source to set goals and track sales. We should investigate potential data integrity issues such as double crediting sales or missing data.
- The three districts with the highest performing territories also contain the three lowest performing territories. We should verify that the goal setting and sales tracking processes use the same data sources and territory alignments.

Possible Explanations & Causes

Goal Assumptions: To begin assessing the validity of our sales goals, we need to compare them to actual sales. We also need to find out how actual performance relates to company goals and whether individual contributions were appropriately compensated.

Let us start with identifying territories that achieved extraordinary results. The grey shading in the graph to the right identifies two territories as statistical outliers – one territory with unusually high sales, another with unusually high goal attainment. These might be temporary aberrations. Still, it is worthwhile to ask a few questions.



Assuming we have ruled out data issues, we should investigate why the **Quota Attained Outlier** was able to exceed its goal at such a high rate, especially since its sales volume barely exceeds the 50th sales percentile (as shown by the red "Median Sales" line).

- Did we miss something while calculating its goal?
- Did the territory benefit from a one time situation?

For the **Sales Outlier** territory we should look at the following:

- Can the rep for that territory really influence all sales in that territory?
- Should some accounts be transferred to a special House Account Territory?
- Should the territory be split and re-aligned?
- Was the quota for that territory appropriately set?

Another consideration: for companies that sell multiple products sales outliers for individual products may be OK. They could be the result of a territory alignment that was optimized for several products instead of the single product we are reviewing.

Possible Explanations & Causes

Goal Assumptions – Continued: To determine how we are meeting company goals and whether the payouts are appropriate, we need to look at more than outlier territories. We need to assess the extent to which territories meet their assigned share of company goals and whether some territories are overpaid or underpaid relative to the sales they generate. The graph below helps with that assessment.

To start out, we removed the two outlier territories and divided the remaining territories into four quadrants around the 50th percentiles for sales and quota attainment – as indicated by the red lines in the graph.

To determine whether a territory was significantly underpaid or overpaid, we applied the "75% vs. 25%" rule – as illustrated with the areas shaded in red. For example, a territory is significantly underpaid if it falls into the top 75% for sales and the bottom 25% for quota attainment. In our example, none of the territories fit the "75% vs. 25%" rule.

This leaves the question of how we are meeting company goals. In our case the high performing territories more than made up for low performing territories since we exceeded the company goal. However, it always pays to review the **Bottom 25%** of territories to determine possible issues and risks.

- What explains their performance?
- What do they have in common?
- Can they be expected to improve?
- Do their goals need to be adjusted?
- Are they viable territories?

Similarly, it pays to look at the **Top 75%** of territories to determine whether we are leaving sales on the table and whether their performance can be sustained.

Conclusions and Recommendations

The analysis outlined in this case study shows that our bonus plan achieved its stated goals:

- we avoided excessive bonus payments by placing a cap on payouts
- we encouraged reps to stretch beyond their goal by rewarding sales above goal attainment
- we provided some quick wins by starting the payout below goal

Overall, the plan provided appropriate compensation:
- no one was significantly overpaid or underpaid

However, two territories should be reviewed more closely:

- the **Quota Attained Outlier**
- the **Sales Outlier**

To maintain rep motivation and to further improve goal setting we should:

- determine whether providing bonus payments to more reps makes business sense
    - currently fewer than 75% received a bonus payment
    - currently fewer than 50% of reps achieved their goal
- determine whether territory alignment tweaks make business sense
    - two outlier territories
    - three districts with wide performance gaps
- determine how to address the two outlier territories
- understand what is going on in the **Bottom 25%** of territories
- understand what is going on in the **Top 75%** of territories
- ensure that potential data issues have been addressed

The analytical steps demonstrated in this case study can be adapted to other situations. They provide insights for a continued dialogue between the various stakeholders and they identify starting points for improving on the current plan.