# Enhancing pharmaceutical sales force performance: Leveraging variable pay through an enterprise incentive management application

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**Executive summary**

Many pharmaceutical companies have embraced variable pay as a way to motivate their field force and align behavior with corporate strategies. Many of these companies, however, are discovering that their current compensation management systems are inadequate and not providing the results they expected. For example, their compensation payments are slow and inaccurate, so their sales force wastes valuable time scrutinizing and disputing their paychecks. The answer: a robust Enterprise Incentive Management (EIM) system from IBM and Callidus Software that can deliver compensation on an accurate, timely basis.

**Turning theory into reality**

In theory, variable pay incentive compensation can be a powerful tool for driving business success. It can motivate the sales force. It can encourage and reward behaviors that support corporate strategies. It can influence channel and distribution processes behavior. So it's not surprising that the use of variable pay has increased dramatically over the past decade. In fact, the percentage of U.S. workers receiving variable pay more than doubled during the 1990s alone.

In practice, variable pay is only as effective as the system that supports it. That's why many companies – including pharmaceutical companies – that are still using homegrown or spreadsheet-based incentive compensation systems are not realizing the full benefits. Most of these applications are slow and inaccurate. They create frequent disputes over sales and compensation, which are not only time-consuming and costly to resolve, but also create an atmosphere of distrust within the sales force. The result: lower morale and higher turnover.

What's more, when compensation plans are not aligned with corporate strategy, sales people often "work the plan," to the businesses' disadvantage. They spend their energy on what they believe will generate the most commission rather than focusing on what provides the best value to the customer and, in the long run, to the business. They might focus excessively on one product, for example, and neglect others that are more strategic to the company. They might sell items with lower margins that increase their commissions, but generate less profit. Or they might focus on existing customers instead of courting new ones. Worst of all they may ignore customers' real needs in favor of sales that have a very short-term benefit, for example increasing their earning potential.

**Meeting complex needs**

In addition, pharmaceutical companies face a number of challenges that are unique to this industry:

- How to reward sales appropriately when prescriptions migrate from one sales territory or ZIP code to another? Or properly accounting for them in hospitals and large clinics where there isn't a one-to-one professional sales relationship?
- How to organize the sales force so that two reps don't compete against each other across therapeutic portfolios? How to balance rewards between field force sales and managed care sales?
- How to accurately feed IMS Health's market research and sales reports and other market data coming from a variety of sources and computing platforms into the company and into its incentive compensation system?
- How to quickly incorporate plan changes, special promotions and sales contests into the system – without the need for costly IT support?

*A Typical Pharmaceutical Scenario*
*Some of the complexities faced by*
*a typical medium-sized*
*pharmaceutical company:*
- *20 variable compensation plans*
- *1,250 payees*
- *100,000 sales transactions a month*
- *5-6 credits per transaction*
- *10 reports*
- *5-6 data feeds*
- *3 application infrastructures across Order Entry, Sales Force Automation, Payroll, and HR*
- *1 compensation manager and 2-3 employees to do calculations*

The answer to these challenges is an Enterprise Incentive Management (EIM) system that is fast, accurate and flexible. It must be fast, because the sooner a sales person is rewarded for an appropriate behavior, the more motivating the reward will be. It must be accurate so that the sales force can trust it and focus on business results instead of second guessing their paychecks. Plus, it must be flexible so that a company can change plans in the middle of the year and add special promotions and contests as necessary. This kind of EIM system can support the sales compensation plan and enable it to drive behaviors that have the most positive impact on the bottom line.

### A breakthrough solution from IBM and Callidus Software

Thanks to a collaborative effort between IBM Healthcare and Life Sciences and Callidus Software, there is now an easy-to-use, cost-effective EIM solution for pharmaceutical companies. As a long-time consultant to companies in the fields of pharmaceutical research, biotechnology, genomics, health and other life science industries, IBM has the domain expertise and innovative technologies that are essential to a successful solution. Callidus Software has been identified by Gartner as an EIM software leader with the largest installed base, managing more than U.S. $121 billion in compensation payments annually.

- IBM has the life science expertise necessary to help mitigate risk, optimize results and speed the delivery of business-critical EIM projects.
- Callidus Software has a proven track record of successful EIM implementations in close to 100 companies across a wide range of industries.

*"Companies that have more than 500 people on incentive compensation plans should definitely evaluate an EIM solution. These can be implemented in-house by licensing the software, or they can be hosted, reducing some of the upfront expense. Companies subject to Sarbanes-Oxley compliance might also want to seriously consider an EIM solution. At this point, Callidus Software should be on everyone's shortlist."*

*Craig S. Symons,* Quick Take: Callidus Software Releases TrueComp 4.1*, Forester Research, March 22, 2004*

Working together, IBM and Callidus Software can deliver proven EIM solutions that are flexible enough to meet diverse needs without custom coding and are tuned to the specific requirements of the pharmaceutical industry. These solutions can enable companies to model, design and administer compensation plans using historical performance data – then process the resulting sales credits, measurements, incentive calculations and compensation reports. So instead of relying on intuition, sales managers can have a fact-based forecast of financial impact. And the EIM solution features unique reporting and master database, which help provide the accuracy and control necessary to document of Sales and Cost of Sales required for Sarbanes-Oxley compliance.

The heart of the system is the Callidus TrueComp® Suite. It includes TrueComp Manager, which enables enterprises to plan, implement, manage and measure all aspects of variable compensation. TrueInformation™ adds state-of-the-art reporting, and TrueResolution® facilitates the resolution of disputes. Together they provide a number of features designed to enable pharmaceutical companies to:

- Make adjustments to dynamic compensation plans. Flexible rules-based design allows companies to quickly respond to changes in the marketplace, such as FDA fast-tracking of new product approvals, co-promotions, and post-launch clinical trial data – without code changes or IT involvement.
- Add cost-effective processing as needed. Scalable grid architecture allows companies to meet the growing volumes of transactions created by the multiple business models used to sell products today – without performance degradation.

- Provide easy Web-based access. J2EE architecture allows personalized, secure and timely access to information for both management and payees, whether they are employees, business partners or agents.
- Make fast, transparent and correct payments and automatically resolve disputes. This eliminates the costly claims process, thereby fostering trust and avoiding wasted sales productivity from "shadow" accounting.
- Create custom and timely reports. Robust performance reporting provides a window on the effectiveness of the incentive plans. It integrates existing enterprise systems and helps to leverage third-party sales data. Also enables management to project costs, thereby making informed decisions and adjustments.
- Manage plans and data across the enterprise. Single, enterprise-wide solution provides for multiple business units operating on different calendars, and aligns strategic objectives across multiple divisions.

What's more, the suite features a flexible rules-based engine that can take data from migrating prescriptions and create payments to Sales in other geographies as appropriate. It enables timely updates for territory changes, split payments between competing product portfolios, and allows companies to reward Sales on variables such as current achievement.

A flexible and capable system, the TrueComp Suite has been configured for more than 90 renowned companies, including AOL Time Warner Corporation, AT&T Wireless, Dun & Bradstreet, JP Morgan Chase & Co., and Pennzoil-Quaker State Company – without custom coding. It is based on open standards, so it is

*"Through 2006, 25 percent of sales organizations with more than 500 payees will evaluate and select a packaged sales incentive compensation management application to replace a homegrown system (0.8 probability)." "Enterprises should look to replace internally developed commission management systems with incentive compensation management systems to improve the accuracy, timeliness and visibility of their compensation payments to sales representatives."*

*J. Galvin, Gartner Research Note (M-21-9631), January 28, 2004*

optimized for the infrastructure technology used by IT departments worldwide. It leverages IBM technology in the following ways:

- Integrating diverse business systems, such as databases and transaction processors, and extending them to the Web – IBM WebSphere® Application Server and software platform is currently doing this for nearly 35,000 companies worldwide, including 15 of the top Wall Street brokerage firms, plus 90 percent of the top commercial banks in the United States.

- Integrating various databases and infrastructures to enable a large number of concurrent users, provide security through authentication and authorization, and reduce required disk space – IBM DB2® Universal Database™ not only does all this, but also was ranked by InformationWeek as the preferred choice to Oracle® and Microsoft® in seven out of ten categories including reliability, scalability, service and responsiveness.

- Provide reliable, cost-effective UNIX® and Linux® servers – IBM @server® pSeries® does this with POWER4+ processors and autonomic (self-healing) computing features.

**Putting it to work for you**

With their extensive training and experience in the implementation of Callidus TrueComp solutions, IBM Business Consulting Services consultants have the expertise and best practices necessary to design, build and manage effective pharmaceutical solutions. They provide services to 74 percent of the Fortune Global 100 and to 45 percent of the Fortune Global 500, and can cover all aspects of a successful integration project:

- Sales transformation consulting and multi-channel distribution
- Business process reengineering, change management and training
- Implementation project management
- Requirements, design, coding and testing

Together, these services can help clients leverage their existing technical infrastructure while integrating the new capabilities necessary to reduce distribution costs, manage channel loyalty and increase revenues by accurately rewarding achievement.

**Instant rewards**

For most companies the most immediate benefit of an industry-leading EIM system is the savings in overpayments. In fact, Gartner estimates that users of less robust systems typically overpay their field force by five to nine percent of their total compensation cost. That can really add up. Take, for example, the regional division of a large pharmaceutical company that is currently implementing the joint IBM and Callidus solution. It has an annual total variable pay budget of $130,000,000 and is projected to save $6,500,000 a year. The company is also expecting to achieve the following approximate savings:

|  | One Year | Three Years |
| --- | --- | --- |
| Mainframe processing costs | $1,887,110 | $5,662,608 |
| Mainframe data storage costs | 883,546 | 2,650,637 |
| Reporting costs | 380,486 | 1,145,290 |
| Staffing costs | 643,507 | 1,930,522 |
| Future project costs avoided | 4,791,830 | 14,376,768 |
| **Total saved** | **$8,586,480** | **$25,765,824** |

*"Beyond sales and finance, EIM software can streamline processes and improve efficiencies for human resources, IT staff, and marketing."*
*HR.com 2003 Buyers Guide*

Sales Administration is then better able to reward and retain top performers with faster, more accurate paychecks. And the Finance and IT departments gain as well. Finance is better able to identify and correct overpayments. It's also better able to justify incentive plan expenses and meet the requirements of the Sarbanes-Oxley Act. Overburdened IT departments no longer have to develop and maintain incentive management systems, spreadsheet formulas and macros.

In fact, most experts predict that companies are likely to recoup their investment in an EIM system within one year. These systems provide a low-risk, cost-effective solution with benefits that flow directly to the bottom line. Plus, IBM has ways to reduce the risk even more by hosting the application. In this model, organizations pay a monthly fee per user, which includes all the services necessary to make the application available 24/7 to all authorized employees. This model defrays the hardware, middleware, maintenance and services fees required to install the application and run it – a source of potentially significant savings. Another option involves outsourcing EIM completely, thereby averaging the cost out over a number of years.

*"The rapid rate and positive return on investment (ROI) reported by adopters of EIM software is striking; so much that the organizations we spoke with reported an average and estimated ROI in under one year."*
    *HR.com 2003 Report*

### Delivering bottom-line value

Because they derive most of their revenue from sales and marketing, pharmaceutical companies have a lot to gain from an effective EIM system. IBM and Callidus Software can offer flexible, comprehensive solutions based on best-of-breed software, proven technologies and best integration practices. These solutions can enable pharmaceutical companies to motivate their sales force through timely, accurate compensation and to align behavior with corporate strategies. This, in turn, can increase competitive advantage, profitability and shareholder value.

### About IBM

The goal of IBM Healthcare and Life Sciences is to rapidly bring real-life information technology solutions to customers and IBM Business Partners in the fields of pharmaceutical research, biotechnology, genomics, health and other life science specialties. IBM is a proven leader in data integration, supercomputing, high performance storage and on demand information technology services.

Long-term projects at IBM Research Centers and the IBM Deep Computing Institute foster collaboration with life sciences and healthcare companies – bringing domain expertise and innovative technologies to the development of healthcare and life sciences solutions. IBM actively collaborates with companies like Callidus, whose domain knowledge, products and resources can help build valuable solutions for our mutual customers.

**For more information**

To learn more about IBM Healthcare and Life Science Solutions and IBM Business Partners, visit **ibm.com**/industries/healthcare or contact an IBM Healthcare and Life Sciences specialist at LS@us.ibm.com.

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