



Sales Performance Management
in the Subscription Economy



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Mark is responsible for the overall business and research direction of Ventana Research and drives the global research agenda covering both business and technology areas. He defined the blueprint and methodology for improving business by using benchmark research to provide guidance across people, processes, information and technology. Mark is an expert in enterprise software and business technology innovations including: business analytics, big data, cloud computing, business collaboration, mobile technology and social media. Mark has held CMO, research and product development roles at research and software companies. Mark started Ventana Research more than a decade ago; he has worked in the software industry for 25 years leading innovations in research and technology. Mark was rated the 2011 software industry analyst of the year by The Institute of Industry Analyst Relations (IIAR). Mark is also ranked as one of the top ten technology influencers in 2012 by Human Resources Executive magazine.



The subscription economy requires companies to continuously adapt to ensure they can attract and retain customers who at any moment can switch to another service. This means businesses providing subscriptions must have the processes and people in place to enable optimum utilization and provide the right level of customer satisfaction. To ensure this, organizations must provide incentives to individuals who perform critical tasks to deliver the desired results and reach performance targets. Furthermore, these organizations must have applications that effectively support both subscriber processes and the organization's sales goals. What's required, in fact, is a new way of thinking: Sales Performance Management (SPM) applications ensure that organizations can connect the desired outcomes to the processes and people involved.

What are the main drivers for a sales organization in a subscription-based business?

Subscription-based businesses must focus on attracting, growing and retaining subscribers. This may sound easy, but it requires establishing and optimizing a set of continuous processes and ensuring that the sales team is aligned to both the subscription products and the customers. Organizations in the subscription economy have developed metrics for this purpose. Most also have created new customer success or customer satisfaction positions focused on retention. But they then must determine how to motivate and incent the people in those positions in order to achieve the best possible performance.

To ensure success, organizations should embrace an overall subscription management process and adopt applications that provide SPM-type support – in other words, create an SPM environment in which everyone in the organization understands his or her goals and incentives. This enables everyone, particularly those in sales, to plan activities and actions appropriately and understand the compensation they are earning for doing such work.

Sales Performance Management can have a significant impact when applied to subscription-based businesses. SPM systems utilize a number of key tools. One is incentives to sales, account management and customer-related teams. Another is analytics that can assess subscription processes to determine the success of SPM strategies. Our research finds that aligning the sales force to the business strategy and goals is the top sales-related benefit of using sales compensation systems, reported by more than two in five (43%) organizations.



How does managing compensation with a Sales Performance Management solution change in a subscription-business model?

In a subscription-based business a wider range of roles and types of compensation are used to attract and retain subscribers. In the non-subscription-based environment, variable compensation is traditionally paid according to sales of products sold and levels of quota attainment, which is relatively simple to calculate. In the subscription-based business, sales incentives can be applied with respect to the subscription period, primarily at time of purchase, when it is activated and then when it is renewed. However, designing compensation plans for other individuals involved for the subscriber lifecycle vis-a-vis their contribution to subscriber revenue is much different. This demands that organizations examine a variety of incentive methods for those involved in the subscriber lifecycle.

Organizations' use of Sales Performance Management must change to reflect the ways that organizations are motivating and compensating the people involved with subscriptions. One example is the use of effective dating in the subscriber life cycle to determine when compensation is paid. The most important subscription date for organizations is not when a customer signs up for service but the date that the service is used, which is when revenue is recognized according to the new accounting standard, ASC 606. This is also when organizations are expensing commissions allocated to the subscription, because that is the moment when the sales commission is actually paid – when the revenue is recognized and maybe even billed. It is also important to compensate the people involved in getting a subscription activated and used because these subscriber moments impact revenue.

To manage distributed compensation across periods of time requires more sophistication not only in the development of compensation plans but also in the modeling of them. A large array of choices in how organizations can compensate across a subscriber lifecycle means more collaboration that cuts across departmental lines, including sales and business operations, management and finance. The variety of choices will also require more analysis of internal operational data to determine the effect of compensation on the efficiency of onboarding or activating subscribers as well as effectiveness in retaining and renewing them. These are just a few examples of how managing compensation and having the right type of Sales Performance Management system is essential for successful operation in the subscription economy.



“...two-thirds of organizations say inconsistent execution in sales is motivating them to make changes in their sales compensation.”

How will changes to compensation for my sales team impact future planning?

Compensation that involves subscription-based commissions or incentives will require sales planning that is unified from both customer and financial perspectives to ensure that the allocations are designed properly. Since compensation is critical to motivate sales organizations and ensure efficient sales execution, it is important that this be addressed properly in planning. Our research finds that almost two-thirds (61%) of organizations say inconsistent execution in sales is an issue motivating them to seek changes in their sales compensation. Planning sales compensation so it's aligned with the subscription process will ensure that people are motivated to perform their role and will reduce issues contributing to inconsistent execution.

Applying compensation to subscription-based selling is different from applying it to the purchase of traditional products and services. The goal of the subscription-based business is to have a continuous revenue stream that is predictable across future time periods. To ensure customers are satisfied and continue to pay their subscriptions for the time periods contracted, an organization needs to use people and processes to ensure customers are satisfied and are utilizing the subscription. Multiple people from account management and customer support areas can be involved, so their compensation also must be addressed. Of course, their compensation should reflect and further the goals of the organization to attract, grow, and retain customers.

When the contract value of a subscription is realized over a period of time, compensation should reflect that and be disbursed as the customer pays for the subscription. In many subscriber-based organizations the commission credit is earned on a daily to monthly basis but is not paid until the subscriber has paid the organization or the period of service has been completed. Customer retention is essential, and traditional sales incentives to grow new customers do not necessarily help to activate the customer or reduce churn. The organization thus should consider allocating commissions and incentives to not only those who help close the sale but also those who help retain the customer value.

Incentive-based compensation for people involved with subscriptions should be managed differently than compensation for other revenue-producing sales, because a customer can subscribe to a service and then unsubscribe from it, in which instance the incentives should adjust appropriately. Conversely, a customer can also subscribe to additional services or modify the existing subscription, which can mean that multiple people earn compensation. It can be difficult for organizations to determine how to effectively allocate incentive credit to reflect subscription time periods. Our research finds that only 52% of organizations report they are satisfied with their current process to calculate sales organization incentives; when organizations fail to consider the complications of subscriptions, the situation worsens.



“...only 27% of organizations are very confident in the quality of compensation process information.”

How can Sales Performance Management help companies that are transitioning from the traditional business model to a subscription-based model?

Sales Performance Management is designed to help sales organizations establish goals and plans for sales to ensure alignment to quotas, using compensation plans and incentives that make it all a reality. Now, a business transitioning to a subscription-based model can use a new SPM approach to make all the business professionals involved in the subscription process part of one plan, ensuring incentives for – and therefore the engagement of – all participants. This helps businesses understand the roles and the metrics that ensure success for everyone involved and provides a unified approach to management and operations. A unified approach to SPM that focuses on subscriptions and sales is essential to guide this transition in the most efficient manner possible. of Sales Performance Management system is essential for successful operation in the subscription economy.

What sets a subscription-business ready SPM system apart from traditional business-oriented SPM systems?

The subscription-focused business typically has a greater sense of urgency around sales-related compensation as it is dependent on growing and maintaining continuously flowing recurring revenue for services. This is a different approach than selling products, with the latter typically involving a compensation plan focused on a territory, accounts and a discrete set of products. SPM in this traditional approach is focused on selling the products while issues of customer use and satisfaction are left to another department. In a subscription-based business, SPM must focus on the entire subscriber lifecycle to ensure revenue continuity for the organization. To support that requires up-to-date metrics on subscriptions. This in turn requires data from a multiple set of trusted sources, including data repositories of orders, activations, changes, billings and related data. Our research finds that only one-quarter (27%) of organizations are very confident in the quality of compensation process information. This issue can be mitigated with a more expansive, centralized approach to SPM that focuses on data-related processes to ensure data integrity and quality as well as accuracy.



“61% of organizations admit that relying on spreadsheets makes it difficult to manage sales effectively.”

What should organizations look for in a solution for Sales Performance Management that will align to the new requirements for subscription-based businesses?

In looking for a solution, the first step is to understand the factors that grow and maintain the subscription processes. Of course, people are involved and are compensated for achieving the business and revenue-related expectations of the organization. But that's a two-sided coin: The organization must ensure that the needs and concerns of the individual employees working within the processes are addressed so that they're able to access and understand their compensation. The SPM platform should allow for the flexible and responsive design, administration and adjustment of compensation and incentive plans. And it should operate on a unified platform and set of applications that leverages all the information related to the sales organization and to the tracking and measurement of subscriptions. This is not easy, as the array of data sources and multiple applications are not always easily integrated. In fact, many companies have given up and instead are using personal productivity tools, which are very poor tools for managing compensation.

Unfortunately, almost three-quarters (71%) of organizations use spreadsheets regularly or universally to manage sales compensation, even though 61% admit that reliance on them makes it difficult to manage sales commissions efficiently. Addressing the need to have a dedicated approach to SPM designed to handle subscriptions is critical for business success. The importance of the usability and manageability of the technology should not be underestimated, as when it works well it enables businesses to manage the process appropriately. Having the right SPM solution will improve the engagement of the people involved in the subscription process and produce desirable outcomes.

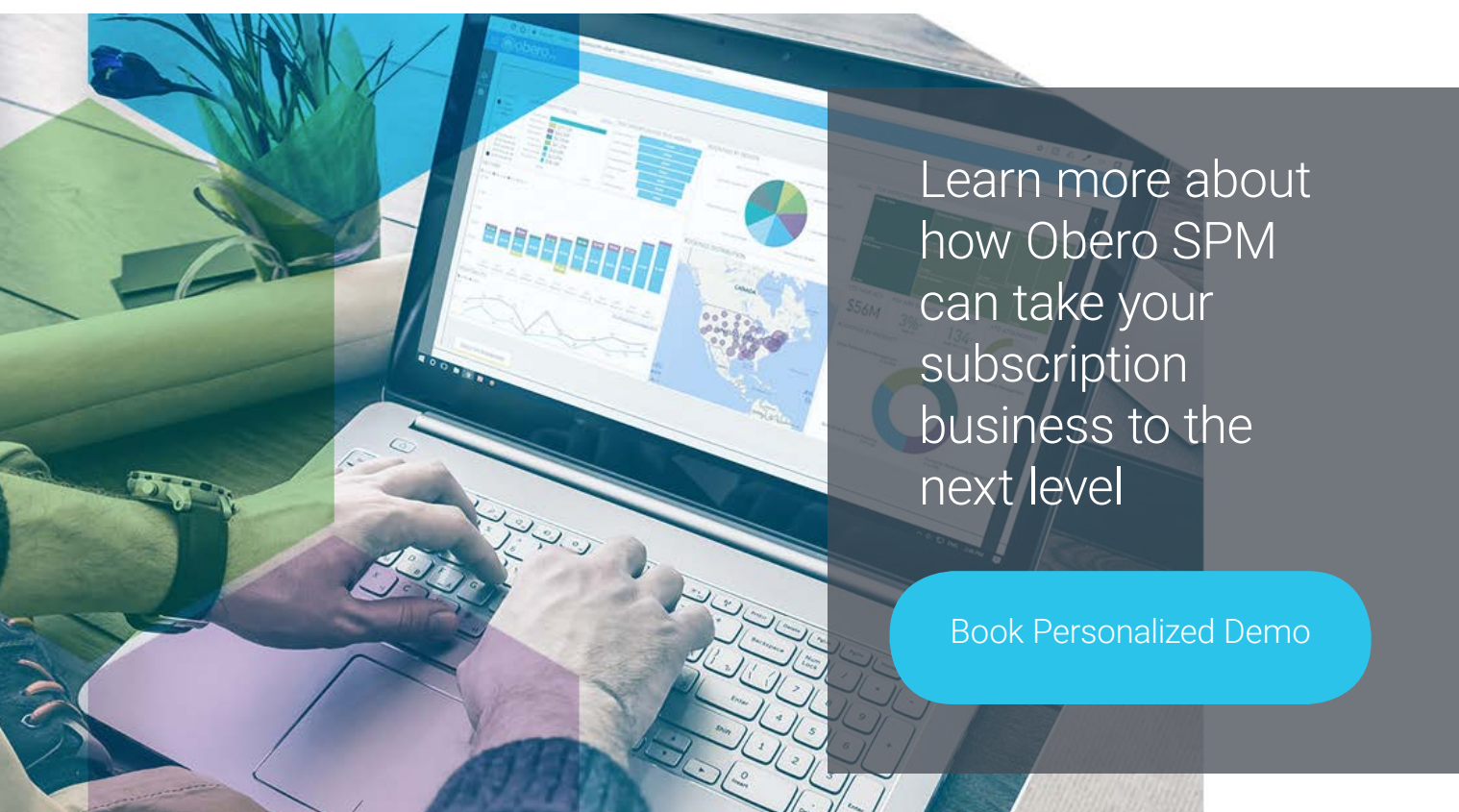




Where is SPM going to support the subscription economy?

The needs for subscription processes in Sales Performance Management are changing to match the new demands of the subscription economy. In the past, marketing, sales and customer service were distinct, mostly independent departments. This is no longer the case in the new interconnected digital world of subscriptions and the people involved with them. Subscription-based businesses need a more seamless approach in assessing how marketing, sales and customer efforts impact the subscription experience. The distribution of responsibility to attract, grow and retain subscribers also changes how SPM must align to the subscriber processes and measure expected performance in an organization. Organizations must examine the application of incentives as part of the variable compensation to ensure that the activation and retention of subscribers is as efficient as possible.

SPM is evolving. Over time it will adapt to track and manage not only sales but everyone in the organization who is involved with subscribers, and inevitably this will bring about a new definition of SPM. This new approach will involve modeling the subscriber life cycle, including when subscription revenue is recognized and when individuals earn and are owed subscriptions. A subscriber life cycle that involves marketing, sales and service will require new stewards to ensure overall subscriber satisfaction and to help optimize the potential value of every subscriber. These are roles and functions all of which may justify an incentive – one that of course then will need to be allocated from and calibrated relative to the subscriber revenue. SPM must evolve in order to enable an organization's supporting team to achieve the needed and expected revenue and margins.



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About Obero

Obero SPM is a cloud-based Sales Performance Management solution which supports the end-to-end sales life cycle and is the only solution designed to support cost-accounting under ASC 606. Obero SPM integrates Sales and Revenue Management, Territory and Quota Management, Workforce and Capacity Management, Incentive Compensation Management and Compensation Accounting Management processes in a single unified application that is uniquely positioned for the subscription economy.

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