A Look Inside Incentive Compensation: Pharma Leaders Discuss Changes, Challenges, Choices

“We are faced with the challenge of delivering innovative compensation design that also reduces cost of operations.”

That statement, from a compensation director at a major pharmaceuticals company, sums up the critical business objective at many pharmaceuticals companies. Its sales operations group and compensation directors are challenged with designing incentives to motivate the salesforce to produce greater results, while simultaneously delivering more administrative efficiencies and lower costs.

To better understand the impact of this objective, the Cognizant Enterprise Analytics Practice recently held in-depth, one-on-one conversations with compensation directors at 20 leading pharmaceuticals firms ranging in size from small to large. Some participants were clients; others were not. While exchanging ideas and discussing key issues, they spoke candidly about the changes their industry is undergoing; the resulting challenges; and the choices they are making to turn today’s compensation challenges into opportunities (see methodology, page 5).

In this paper, we present an overview of thoughts and ideas that emerged from these discussions in hopes of stimulating an industry peer-level dialogue about the critical factors influencing incentive compensation (IC) programs.

Most Influential Trends

The Changing Selling Model

- Regulatory issues, access constraints and increased influence of other marketing mix channels challenge the value proposition of sales representatives.
- Compensation plans must be flexible to accommodate tomorrow’s fundamental changes, while balancing simplicity with equity.
- Industry practice on ratio of base vs. performance pay might change, and increased consolidation will lead to fewer large-incentive payouts.

For compensation directors, the over-arching goal remains the same: designing fair and motivational incentive compensation plans that align with business goals. Yet to be effective, these plans and processes and systems underlying them must have foundations flexible enough to accommodate the clearly evident evolution in industry sales channels and practices.

That evolution is most obvious in questions that industry professionals raise about the effectiveness of sales representative efforts in the face of access constraints, regulatory issues and other market forces (see Figure 1).

Evolving market dynamics, federal and state regulatory actions, and demands on physician
The Incentive Compensation Conundrum

Figure 1

It is noteworthy that in certain deployment designs, like mirrors, pods or differential resourcing, it becomes difficult to measure impact attributable to an individual.

Increasing Compensation Complexity

- Plan changes will continue to occur with greater frequency.
- Quota-based compensation plans will see increased adoption.
- Plans will require increasing complexity to be fair and effective, presenting hurdles for effective communication of plans to participants.

Given the macro environment, including ongoing acquisition and right-sizing, the industry can expect to see an ever higher velocity of changes to compensation plans, with pressure to swiftly adapt them to changing market realities as they emerge:

- Directors say they are likely to require specialized treatment in the base plan to account for regional market, regulatory and compliance issues. They are emphatic that a single simple design will not fit their entire sales organization, and this poses a threat to harmony in plan design across sales divisions.
- They are especially concerned about creating fair compensation plans that will help them retain and reward their best representatives, yet reflect the power of new influencers.

The fact that the sales representative model is arguably less effective, yet still necessary, makes compensation design increasingly difficult. The industry is seeing a struggle with the appropriate composition of the pay mix (base pay to incentives ratio), with current consolidation and cost control moving the needle toward reduced incentives. Further, legal and regulatory compliance requirements are expected to eventually stifle their ability to create innovative compensation incentives.

time are directly affecting how sales representatives may sell. In some states and regions, directors noted that physician access remains an issue, and this limits the number of visits their representatives can make. In addition, more physicians are opting to block access to their prescription writing data, eliminating a source of sales intelligence.

Other marketing mix channels like direct-to-consumers, speakers at professional conferences, key opinion leaders and journal spend clearly are influencing sales in certain therapeutic areas, and these channels are finding increased adoption among physicians. This trend calls into question how much influence individual sales representatives have over prescriptions, and how to separate their influence from that of the other channels in the promotion mix. Such factors are leading to a perceptible decline in the return on investment of representative selling.
To that end, the directors were very positive about the merits of quota-based compensation plans. They note that such plans score well on fairness measures and are more motivating. At the same time, they voiced concerns about volatile or inadequate brand forecasts. In our extensive experience with plan design templates, we see adoption swinging from quotas to forced rank-based design.

Directors say while rank-based plans promote competitive behavior, and are implemented with a lower total cost, and have other advantages, such as a fully divided compensation pool with no overflow and a simple design, these plans will likely face decreased adoption due to increased managed care influence and access issues, particularly in companies whose products face diverse market environments.

Directors also see current compensation systems (including installed on-premises solutions or homegrown systems) becoming increasingly obsolete in the face of new and complex requirements.

Regardless of the plan design that is in line with their compensation philosophy, plans necessarily will tend to be more complicated in order to introduce more equity and fairness. This trend is in conflict with the need for plans to be simple, for sales representatives to understand and be motivated by. A well-designed plan clearly should accommodate many variables, such as product lifecycle, market, selling model, access and environmental constraints. All of these variables today have become increasingly complex.

The added challenge for the industry is that while market structure and conditions require more complex plans to account for such variables, these now must be implemented within tighter budgets and cost constraints.

**Obstacles to Overcome**

In addition to the powerful trends affecting compensation strategies, there are equally potent industry and internal obstacles that compensation directors must overcome or navigate around if they are to create incentive compensation plans that lead to increased sales at lower costs (see Figure 2).

**Data Dramas**

- Availability and accuracy of sales data does not always and consistently meet planning and payout requirements.
- Adequate managed care consideration for IC needs remains elusive.

**Cost Constraints**

- Contingency planning is on the rise.

Compensation directors repeatedly cited issues relating to the availability and accuracy of syndicated prescription sales data. These are the key sources of incentive compensation planning data, yet directors say they lack confidence in the validity of the data supplied:

- There continues to be concern about whether the data is accurate and consistent. The directors emphasized their need for strong, validated data, particularly at regional/territorial levels.
- Valid data will be an increasingly important requirement because directors expect plans and quotas to be altered mid-cycle, more frequently than in the past. Compensation groups are under increasing pressure to avoid situations in which sales representatives are paid on the basis of inaccurate data.
- To this end, directors expect to retain in-house validation teams, even if they outsource other compensation functions.

Managed care as related to compensation plans remains problematic. The industry does not have standard practices yet to resolve the impact of managed care on sales representatives’ results. The lack of readily available data considered trustworthy for compensation is a main factor behind this challenge, leading some firms to adopt a feedback process for cleansing such data.

Given the inherent issues in their planning data, compensation directors are increasing contingency planning, and are making such planning more
formal. They are widening the scope of contingency planning from natural disasters to now include items like sales data pervasive adjustments or managed care win/loss adjustments. However, we duly note that only organizations with mature IC governance processes will be able to adequately execute their contingency plans when needed.

Cost Constraints

- Outsourcing models are gaining adoption, as they continue to improve quality at lower costs with increased ROI on spend.
- Variable cost models will increase.
- Cost control measures lead to tougher vendor product scrutiny and demands for transparent pricing.

Within firms, sales and marketing operations is under pressure to justify their results vs. their head-counts. To accomplish this, many are considering variable cost models to augment staff at peak loads, and outsourcing of key processes, including IC:

- The variable cost models especially would affect staffing. Some positions might be eliminated or reduced, with temporary staff brought in for capacity only at peak times, such as at product launches, year end or quota setting periods.
- Many directors say they will shift from using in-house teams to some form of an outsourcing model, not simply to reduce costs but also to gain technology and process advantages, and the industry best practice advantages that vendors bring. As other internal support departments, such as information technology and information systems management, come under cost pressure, directors expect them to be less likely to have the resources required to manage increasingly varied and complex incentive compensation plans.
- Functions that continue to be outsourced include plan design, quota setting and refinement, administration and payout. Some compensation directors suggested they could outsource some of these processes (sometimes with multiple vendors) and retain others inhouse, though they are concerned about multiple vendors’ ability to integrate data in such scenarios.

Others would prefer fully outsourced operations, while at the other end of the spectrum, some directors still prefer to work with an on-premises solution behind their own firewall. Some directors are intrigued by the on-demand and software as a service (SaaS) models, in which their vendor would host an incentives management solution that employees could access over the Web (see Figure 3).

- With compensation teams coming under increasing pressure to reduce cycle times from plan design to production, industry profession-

A Wide Selection of Outsourcing Options

![Engagement Continuum](image)

**Figure 3**

Level of control, cost constraints, head-count-driven performance metrics and corporate philosophy guides firms to operate somewhere in the above continuum.
als today want to be able to access the system for modeling, what-if analytics or ad hoc reports when they choose, but prefer to have the vendor manage administration functions.

With rising cost constraints, we see the industry moving into a phase where there will be increased focus on managing the predictability of outsourced program costs. Compensation directors will be investing in up-front due diligence to understand vendor capabilities, and product flexibility to handle plan changes, implementation and hidden fees, while their sourcing group will demand more price transparency.

**IC Governance**
- Governance of IC, award and recognition programs has not fully matured.

In spite of the importance of this key element, directors across the board maintain that governance remains elusive and poor, with business units continuing to exert inordinate influence on plan designs and contests. Further, the industry does not have a platform or forum to share and reference best practices to assist IC teams and to standardize deliverables. Directors contend this standardization would reduce costs and streamline vendor offerings.

Directors also complained about the extensive time that staff spent on field investigations, citing this as one of the prime areas in which to introduce governance.

**Quality Control**
- Vendor quality control must improve.

Given the complexity they expect their plans to contain, directors insist their vendors must do more to “get it right the first time.” They point out that many well-established vendors nonetheless have continuing quality control issues, and directors are impatient for this to be resolved.

Their major pain points occur when vendors incorrectly apply business rules or data overrides that lead to inaccurate payouts to the field, or do not fully account for organization or participant changes. Such errors can cause time- and effort-wasting shadow accounting, creating mistrust and hurting morale. Incorrect rules applications also create additional costs as errors are discovered and investigated, leading to a rerun of payouts and reports.

Given that directors expect to adjust sales force deployment and structures, as well as alter plans and goals more frequently, they are concerned about vendors’ ability to support such flexibility. The directors need and expect vendors to accurately simulate and administer mid-cycle changes and updates. Such support will be critical to the directors’ ability to manage plans successfully, to increase motivation and sales while reducing costs.

**Methodology**

The Cognizant Enterprise Analytics Practice is grateful to the compensation directors who participated in this study. We held a series of discussions with 20 compensation directors from large, medium and small pharmaceutical and biotech firms, with the objective of validating and discovering key current and emerging trends that are shaping our industry. The one-on-one interviews were held in an informal setting with open questions to stimulate a free exchange of ideas. Views from any particular director have been kept confidential, and this paper interweaves Cognizant Enterprise Analytics Practice viewpoints with those of these leading industry professionals.
About Cognizant Analytics

Cognizant Analytics combines business consulting, in-depth domain expertise, predictive analytics and technology services to help clients gain actionable and measurable insights and make smarter decisions that future-proof their businesses. The practice offers comprehensive solutions and services in the areas of sales operations and management, product management and market research. Cognizant Analytics' expertise spans sales force and marketing effectiveness, incentives management, forecasting, segmentation, multi-channel marketing and promotion, alignment, managed markets and digital analytics. With its highly experienced group of consultants, statisticians and industry specialists, Cognizant Analytics prepares companies for the future of analytics through its innovative “Plan, Build and Operate” model and a mature “Global Partnership” model. The result: solutions that are delivered in a flexible, responsive and cost-effective manner. http://www.cognizant.com/enterpriseanalytics.

For more information, contact Steve Kernan at steven.kernan@cognizant.com.

About Cognizant’s Life Sciences Practice

Cognizant’s Life Sciences Practice partners with 27 of the top 30 global pharmaceutical/biotech organizations, in addition to serving companies in the medical devices, CRO and life sciences product sectors. Whether it’s driving process improvements to your clinical operations, increasing sales and marketing effectiveness, meeting regulatory requirements or enhancing drug safety, we are redefining the way companies benefit from and experience global services. We enable business transformation by delivering consulting, analytics, IT and business process support to fuel innovation and competitive advantage. http://www.cognizant.com/life-sciences.

About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world's leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 50 delivery centers worldwide and approximately 156,700 employees as of December 31, 2012, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at www.cognizant.com or follow us on Twitter: Cognizant.