Evaluating the Impact of Non-sales Metrics in Incentive Compensation Plans

Executive Summary
Historically, incentive compensation plans in the life sciences sphere measured job outcome (Rx sales, for example) while performance appraisals were used to assess job mastery (for instance, non-sales/behavior/value-driven, etc.). But in today’s industry operating environment, physicians are influenced by a variety of factors such as payer drug coverage and the rise of accountable care organizations and other emerging care and regulatory models (see Figure 1). These influences make it far more difficult to measure a sales representative’s influence on prescribing behavior. That fact in turn makes traditional, purely incentive-based compensation ill-equipped to support the industry’s changing dynamics. These plans, created in an era of stable territories and predictable sales cycles, can slow the reinvention of customer engagement models designed to respond to fluid market conditions.

Influencers Reshaping the Life Sciences Landscape

Figure 1
Incentive compensation is not only about creating the right metrics to drive field force behaviors; it should also support the overall vision and mission of the organization. The changing shape of interactions with customers drives the need for change in how the industry approaches the marketplace. Additionally, identifying the true customer and the influence network surrounding decision making is fraught with new complexities. Traditional deployment and sales methods that focused on the number of customer transactions is giving way to focusing on the quality of customer interactions.

**Changing Incentive Models**

For decades, the data, systems, recruiting, training, deployment, analytics and leadership of the life-sciences sales force were focused on sales outcomes, which led to an outcomes-driven IC model. For companies that have used non-sales metrics as part of their incentive compensation plans, those measures primarily included either management by objectives (MBOs), activity measures or both. The use of MBOs is typically tied to long selling cycles and/or data availability. And activity measures have been geared to ensuring specific levels of customer activity. These metrics have been used for many years and are typically used for managed care and/or account-based selling roles. In recent years life sciences companies have begun to use customer surveys as a part of their incentive programs to encourage favorable customer interactions and not just positive sales outcomes. In either case, new forces are challenging the old paradigm and new questions are being asked. They include:

- Are the job outcomes (sales results) I’m seeing a true indicator of the performance of my sales personnel?
- Does the old method of paying for sales results support our changing customer model?

Given these questions, it’s important for companies to determine whether their performance measures will be outcome-based, job mastery-based or a combination of both. These two are not mutually exclusive (see Figure 2). But the outcome-driven IC philosophy has been the predominant model for many years. The ability to quickly seize market opportunities, shift resources and localize product priorities challenges the historic compensation model. In the face of today’s business dynamics, the job mastery (non-sales/behavior/values) driven model is gaining traction.

**Value of Job Mastery IC Plan**

To better align incentive plans with the changing business environment, companies are de-emphasizing individual sales contributions, emphasizing team sales contributions, incorporating the voice of the customer and assessing individual job mastery skill sets. By phasing out individual sales outcome and employing job mastery as key incentive metrics companies are realizing significant value. This approach:

- Reinforces company mission and value to the customer.
- Assesses representatives for what they can impact (their interactions with the customer).

### Comparing IC Models

![Figure 2](image.png)
- Focuses the field force on customer-facing skill sets.
- Offers flexibility in moving resources and product focus without altering IC plans.
- Supports collaborative and team selling models.
- Empowers local decision making.
- Separates hyper performance (over/under) challenges from restatements.
- Requires no changes based on any restatement of sales data or alignments.

As opportunities arise on a monthly or even weekly basis, sales teams need to be nimble enough to change with the times. This is possible only if the IC metrics can support this evolving structure. While job outcome-based metrics work well in steady-state situations, they require a significant operational effort to cope with the short term/immediate changes seen in today's business environment.

**Types of Job Mastery Metrics**

When moving to a job mastery model there are many metrics to choose from. At the heart of this model is the desire to reward mastery for key performance criteria. As with any incentive plan, too many metrics dilute the overall intent of the plan while too few do not provide enough guidance.

To provide the best overall assessment of job mastery skills the key is to calibrate capabilities across many competencies and gain as many inputs for each metric as possible. Figure 3 illustrates how to tackle this.

**Embracing Job Mastery**

Today's market realities demand agility in incentive compensation planning and administration. Processes must support the ongoing transformation of commercial operations in a world of smaller target populations and therapies. Companies must have the flexibility, tools and processes to quickly create dynamic plans that can flex mid-cycle to take advantage of the real-time perspectives and knowledge of sales professionals. Simultaneously, clear governance and compliance boundaries, plus standardized and integrated business processes, must coexist – and enable yet more agile responses to fast-changing conditions. Job mastery compensation provides these capabilities by reducing the administration burdens associated with pure incentive compensation. It does so by de-empha-

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**Job Mastery Measurement**

![Job Mastery Measurement Diagram](image)

*Figure 3*
sizing traditional territory and time boundaries; recognizing the new realities under which the field force operates, such as less physician access and more managed care/quality-based outcomes influences; and rewarding professionals for acquiring the new customer engagement skills required to succeed.

Any company contemplating a shift to a job mastery-driven compensation model (or any non-sales metrics IC Model) must address significant change management requirements associated with this shift. They must recognize that this shift will take time and has the perceived disadvantage of disconnecting sales people from their results. This perception is misplaced as the essence of the shift is based on a simple belief that a field force trained and managed to focus on job mastery will achieve positive customer relationships that will in turn result in favorable financial results.

An organizational shift from job outcome to job mastery is not only a process change for incentive compensation, but it impacts almost every aspect of field support departments and processes. With the decades of leadership focusing and reinforcing "sales results," this shift to job mastery must be supported by and communicated from the top down.

- **Leadership and Communication:** Executive sponsorship, ongoing communication and support are critical for driving the behavioral changes necessary to adopt a job mastery incentive program.

- **HR/Recruiting:** Hiring profiles need to be assessed and possible job reclassification requirements outlined. Additionally, the annual performance appraisal process and format may need modification.

- **Marketing:** Brand teams will need alignment to support a behavior-driven incentive plan.

- **Sales Leadership:** These managers and executives must be provided with the proper tools to coach, mentor and assess sales representatives.

- **Operational Systems:** Alignments, call planning, territory workload, CRM and reporting will need to be updated to handle new data and job requirements and provide a transparent view of performance.

- **Market Research:** It is necessary to design message recall and customer satisfaction surveys that can be used for IC purposes.

- **Training:** Curriculum development, selling skills, product knowledge, disease state, compliance requirements and other training programs will require modification to ensure sales leadership and sales representatives are aligned with client-facing behaviors and strategies.

**Rethink, Reinvent, Rewire**

Non-sales metrics are fast becoming a best practice for adapting to and thriving under emerging market and regulatory forces. They are also a key component in the ongoing transformation of life sciences commercial operations to leaner, customer-focused organizations that can shift and flex dynamically to capitalize on real-time market opportunities.

Today, market shifts occur weekly or monthly. For example, drugs go off patent mid-cycle, a major account is won or a key physicians group joins an accountable care organization. Commercial operations need to move swiftly to realign resources to capitalize on and/or mitigate these market shifts—changing territories, creating physician account groups, adding or moving professionals, etc. But incentive compensation usually is aligned with fairly static sales territories and quarterly time frames. Trying to force the administrative framework to flex and support fast market movements creates a tremendous administrative burden that is counter to saving costs and increasing efficiencies. By using different and more flexible measures, job mastery compensation streamlines incentive administration.

Regardless of the kind of incentive compensation plan used, the points below illustrate the key framework for what “best-in-class” organizations do to ensure incentive plans meet their intended objective:

- **Well-defined purpose for the incentive program** (retention, satisfaction, etc.).
- **Well-defined guiding principles.**
- **An approach that fairly values the influence individuals have.**
- **Agility and flexibility to rapidly redeploy and shift resources without affecting design.**
- **A defined “standardized” framework for plan design for all products supporting corporate and brand strategies:**
  - Launch products.
  - Mature products.
End-of-life products.
- Standing “book of law” for all issues:
  - Over/under forecasts.
  - Data and or/market events.
  - Personnel transitions.
- Structured governance body for oversight.
- Structured and consistent communication plans.
- Consistent evaluation or field force practices embedded in the overall performance management program.
- Routine evaluation of plan effectiveness:
  - Seek feedback from internal and external personnel to ensure continued alignment.

Although it’s clear that reinventing commercial operations models will require better aligned compensation structures, balancing speed of innovation with cost savings and effectiveness is critical. Relying on a trusted third-party service provider that combines substantial life sciences consulting expertise with proven cloud-based platforms helps ensure a successful implementation. However a pharmaceutical company chooses to accomplish it, determining its optimal route for incentive compensation and performance management must be a priority to ensure sales professionals are a potent asset in transforming commercial operations.

About the Author
Steve Kernan is a Principal and Practice Leader for Cognizant’s Incentive Compensation Center of Excellence, focusing on developing and deploying innovative performance management and compensation plans within the life sciences industry. With over 25 years of industry experience in sales, sales management and commercial operations, he has worked across diverse consulting engagements with leading life sciences companies helping align sales incentives to strategic objectives. He can be contacted at Steven.Kernan@cognizant.com.

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