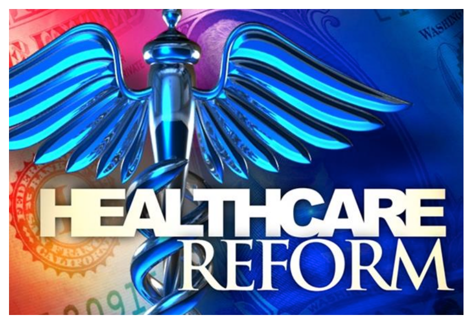
ADAPTING SALES INCENTIVES FOR A CHANGING MARKET

Background

A Blue Cross Health Insurance client had a problem – the payouts for one of their Large Group Accounts Reps were going to be significantly higher than any amount paid in the past. The payout was the result of what was viewed as a "windfall" – excessive incentive pay that is out of balance with the effort and skill required. While the company was thrilled to have landed an important new large account, HR and Sales Management were concerned about potential internal equity issues and costs. The increasing probability of a Rep leapfrogging into the top 5 highest paid positions even caught the attention of the Board.



While the company was facing these internal challenges, the Affordable Care Act was looming on the horizon, creating additional uncertainty and confusion. Maintaining the status quo was no longer a viable option.

We were called in to help HR and Sales Management develop a new sales compensation plan. They had several competing needs:

- Ensure a competitive sales compensation plan so the company could continue to attract and motivate Reps to sell profitable business,
- Provide a flexible incentive design for a changing marketplace, and
- Reduce the potential for windfall incentive payments.

This case study describes how a new sales compensation plan for the Large Group sales team was developed to address their challenges – both competitive (pay levels, plan design, etc.) and structural (windfall payments) – in a volatile healthcare marketplace.

Large Group Incentive Plan Objectives

Our first step was to work with management to identify the features that would indicate a successful incentive plan redesign. Together we defined three plan design objectives:

1. Pay adequate compensation rates to attract and retain top sales talent in a competitive market.
2. Align incentives with company volume and profit requirements, including rewarding for stretch performance and addressing potential windfall payouts.
3. Ensure a cost effective plan.

Objective 1 — Competitive Compensation Levels

The company's sales team had matured and developed under new leadership, the challenge was to retain key talent in a changing market place. In addition, obtaining credible market pay data from comparable organizations (i.e., Blue Cross and/or Blue Shield companies and other similarly situated Health Insurers) was a challenge. In addition, the published market data often showed low incentive levels that were inconsistent with both management's and our industry experience.

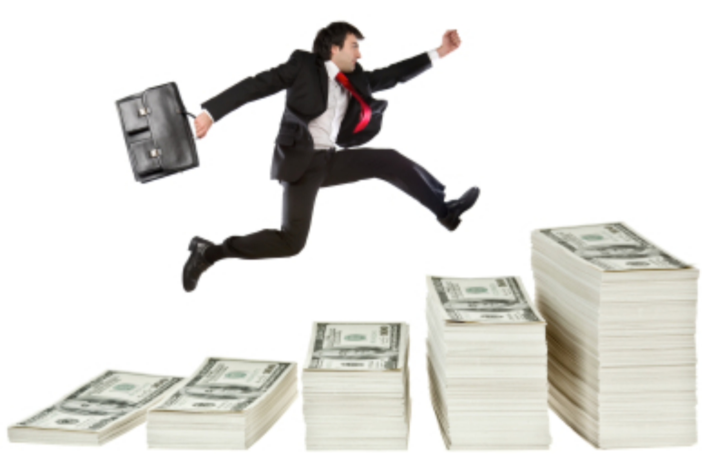
Solution: We determined competitive pay levels for the sales positions using published market data, emphasizing the most relevant sources. We collected data for 25th percentile, median and 75th percentile. The company felt that the sales Reps could earn as high as 75th percentile total cash if they achieved their stretch performance goals.

Subsequently, HR+Survey Solutions (HR+SS) conducted a comprehensive Health Insurance Sales Compensation Survey[1] that could be used on a go-forward basis to vet our original findings. The HR+SS Survey provided overall pay levels as well as pay variations based on performance. The custom survey revealed that industry incentive levels and pay mix (salary/incentive) were higher and more leveraged than the data reported in other published surveys.

The competitive market data helped to: establish target pay levels that would support talent attraction and retention goals, define the competitive range of Rep total comp for all performance levels (target and above and below), and ensure a competitively designed sales compensation plan.

Objective 2 — Align and Reward for Profitable Stretch Performance

It is a delicate balance to reward for profitable stretch performance while minimizing the risk of windfall payments. The knee jerk approach is often to insert a cap into the plan. Caps, however, can demotivate Reps and may result in undesirable consequences – such as incenting Reps to stop selling once the cap is reached or sandbagging to hold sales for the following year, all of which are undesirable behaviors.



Sales management also wanted to focus Reps on the more profitable fully-insured business. Self-insured business was less profitable and these sales tended to take less time and effort. Management wanted the new plan to reward for both types of business yet clearly direct and reward Reps to pursue and close fully-insured deals. The new incentive design had to recognize that fully-insured sales took more time, effort, and skill.

[1] Find out about our survey at: https://hrsurveysolutions.com/uploads/2014_Insurance_Industry_Sales_Compensation_Survey_-_Request_for_Participation.pdf

Solution: We developed an incentive structure with multiple features that worked together to address the client's key objectives:

1. Sales goals were based on the specific contract type (fully and self-insured) providing flexibility to set specific ranges by contract type for each region / territory. The table below illustrates goals set by contract type.

	Illustrative Annual Contract Goals	
Performance Level	Fully-Insured	Self-Insured
Tier 6	> 900	> 1,800
Tier 5 (Exceptional)	900	1,800
Tier 4	800	1,600
Tier 3 (Target)	700	1,400
Tier 2	600	1,200
Tier 1	< 500	< 1,000

2. Varied commission rates were based on the profitability of the type of business sold, so fully-insured business paid a higher rate than self-insured. This aligned the commissions with business profitability, encouraged Reps to spend the time needed to tackle the more challenging fully-insured sales opportunities and, when coupled with plan features listed below, limited the risk of paying a high commission in the case of a windfall or for generating high volume from less profitable business.

	Illustrative Tiered Commission Rates	
Performance Level	Fully-Insured	Self-Insured
Tier 6	$30	$15
Tier 5 (Exceptional)	$60	$30
Tier 4	$50	$25
Tier 3 (Target)	$40	$20
Tier 2	$30	$15
Tier 1	$20	$10

3. Accelerated commission rates were set at higher sales volume to provide motivation. Each additional contract was that much more profitable as fixed costs (e.g., salary, etc.) were covered. We developed a tiered commission structure to manage sales volume, profitability and rates for both fully-insured and self-insured business. This provided Reps a roadmap for how and where to spend their sales time.

4. The payout curve bent downward once a high level of exceptional performance was achieved. This provided a meaningful reward for continuing to sell at a high level but the lower rate helped reduce the company's expense exposure in the case of a windfall (or setting goals too low for a given territory or region).

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Tier 5 (Exceptional)	$60	$30
Tier 4	$50	$25
Tier 3 (Target)	$40	$20

Objective 3 – Ensure a Cost Effective Plan

As a general rule, effective sales incentive design directs Reps to close profitable product sales in a cost effective way for the company. The question on the table was whether the new sales compensation plan costs were affordable.

Solution: We performed extensive modeling to compare incentive payouts and total compensation at various performance levels, using historical and projected performance. At identical performance, we compared new plan modeled payouts and existing plan actual payouts. Results showed that the new plan would deliver highly competitive pay (75th percentile) for exceptional performance while reducing total compensation costs by 30% compared to the existing plan's actual payouts under a windfall scenario.

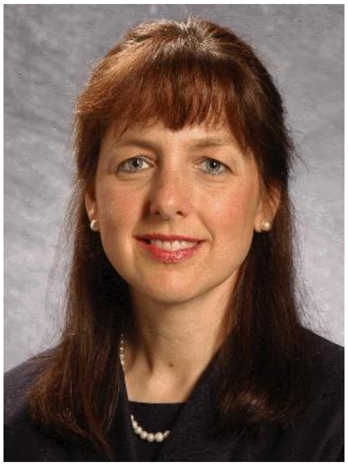
Results

The incentive plan has stood the test of time, which is remarkable in current healthcare environment fraught with uncertainty and change. As we recommended, at the end of the year, plan commission tiers were updated to reflect the goals for the upcoming year. Both the goals and the commission rates were recalibrated. Based on our follow-up with management, the plan has continued to operate effectively requiring just the annual calibration necessary to align with the goals for the upcoming year.

Summary

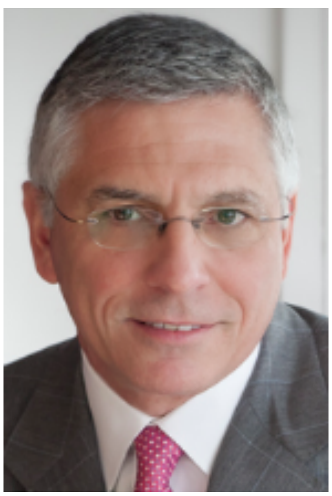
Developing an effective incentive solution is as much about aligning the plan with the company's goals and business needs as it is about avoiding unintended consequences. This case serves as an excellent example of how to address competing design needs (competitiveness, motivation, costs) in a rapidly changing marketplace. The new design motivated Reps to produce desired sales results and also addressed the company's cost and risk exposure constraints.

About The Authors



Judy Canavan has over 20 years of experience as a compensation consultant to a broad range of industries including the insurance industry. She is managing partner of HR+Survey Solutions a firm that focuses on providing high quality market intelligence and compensation consulting.

Learn more about Judy Canavan and HR+Survey Solutions at www.hrsllc.com



Kevin O'Connell has 25 years of experience working with sales teams including insurance industry clients. His work involves designing sales compensation plans, sales roles, and sales organizations to execute sales and business strategies.

Learn more about Kevin O'Connell and Accelerate Consulting Group at www.accelerateconsultinggroup.com