The Pitfalls of Excel as an Incentive Compensation Management (ICM) System
Overview

Spreadsheets are the traditional tool for managing business processes such as incentive compensation and sales performance. While growing companies have invested in advanced technology solutions, surveys have found that many organizations still use a combination of spreadsheets, e-mail and manual processes to manage their compensation programs.

This is a significant operational risk. Spreadsheets were not designed to handle the complexities of modern compensation processes, meet the strategic goals of large organizations, or provide large sales organizations with the levels of visibility and reporting to increase their overall success.

The common pitfalls of using Excel spreadsheets for ICM are described below.

Lack of Consistency and Control

Spreadsheets are notoriously prone to errors and data integrity issues.

ERROR-PRONE

Studies have found that spreadsheets commonly have errors that, despite review among different users, go undetected and uncorrected. In 2013, a task force examining the losses incurred by a Wall Street firm found that spreadsheets using manual calculations were “error-prone” and responsible for significant financial losses.

OVERPAYMENTS

Overpayments are common. Gartner estimates that manual systems overpay by 2-8% each year. Overpayments are often missed internally and mostly go unreported and undetected. In most cases, those funds are lost forever.
POOR DATA INTEGRITY

Spreadsheets increase the risk of data integrity issues as data may be:

- Lost due to Excel size restrictions
- Confused with different interpretations of calculations or formulas
- Overwritten by accident
- Duplicated with no easy way to verify

THE NEED FOR MANUAL INTERVENTION

With Excel spreadsheets, the most common functions must be done manually. This includes:

- **Merging** – A delicate process where data can be lost, missed or corrupted
- **Reporting** – Creating challenges for reporting across different periods, delays in accessing, reviewing and processing
- **Filtering** – Cumbersome and slow in managing or displaying

The manual intervention required to manage spreadsheets also takes serious time. Without automating those processes, companies are spending more time fixing the data and less time conducting strategic analysis and decision-making. Organizations spend more time catching up rather than proactively analyzing the data.

Poor Accessibility

In most situations, spreadsheets are not widely accessible to management and sales team members. Some of the common problems include:
THE “SPREADSHEET GURU”

Many organizations have a spreadsheet guru – a single individual who owns the spreadsheet. Even if several people have access to the spreadsheet, there is often a single person who truly understands how it works, can make adjustments, and respond to queries. There is typically an organizational dependence on this person to implement change and generate reports.

MISSED OPPORTUNITY TO EMPOWER THE TEAM

Sales teams feel empowered when they can access the calculations and see their performance and payouts. However, spreadsheets have limited accessibility.

SHADOW ACCOUNTING

Without an automated system, sales representatives spend a significant amount of time doing “shadow accounting” – checking the calculations for their performance and payouts to catch any errors or omissions.

Limited Reporting

To meet their strategic goals, business managers need a long-term vision of industry trends, customer activity and sales team performance. However, spreadsheets require a serious amount of manual intervention to produce the reports that keep the sales staff motivated, and keep the managers informed about performance.

FIELD QUERIES ARE UNRESPONSIVE AND SLOW

In many companies, the only way for team members to do analysis is to submit queries to the spreadsheet guru, wait for the guru to conduct the analysis and submit the results.
LIMITED ABILITY TO FORESEE PROBLEMS
Effective management requires anticipating issues before they become disputes. Spreadsheets offer managers limited ability to track sales performance and identify potential problems in real-time.

UNWARRANTED DISPUTES
The vast majority of sales commission disputes are preventable, but spreadsheets are rife with miscalculations, and they do little to identify and fix mistakes.

An Automated Compensation System
To overcome the pitfalls of Excel spreadsheets, organizations turn to technology that can automate compensation systems, provide enhanced visibility and are more scalable and flexible.

Intangent helps companies build, model and administer variable pay programs to drive desired sales behavior and, in turn, bottom-line business results.

To learn how Intangent and Incentive Compensation Management (ICM) solutions can help overcome the pitfalls of Excel spreadsheets, please visit www.intangent.ca.