SALES

SPIF GUIDE

How to Plan a SPIF PROGRAM That Actually Works

FORMA.AI

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Executive Summary

Most Sales Performance Incentive Funds (SPIFs) are poorly executed "Hail Mary's" that have visible impact on sales but limited impact on profits.

A proper short-term incentive program can help flatten seasonal variations in revenue and drive long-term, predictable growth for sales organizations.

The problem with SPIFs today is that they are almost always reactive, typically poorly implemented, and haphazardly managed in spreadsheets that are completely separate from core incentive compensation planning and software.

To improve the effectiveness of SPIFs, organizations need to get proactive by mapping short-term incentives into their annual sales compensation plans whenever possible.

Besides, organizations need to take an exhaustive look at their incentive compensation management solution and assess if it's helping or hindering their ability to motivate sales.

Short-term incentives can be one of the most powerful tools in the sales leader's toolbox. Don't let a lack of planning and limited administrative functionality prevent you from leading your sales team to success.

01 THE PROBLEM WITH SPIFS

SPIFs are silly.

It's a silly name. Nobody could even explain to us what the second 'F' is for, so we're dropping it.

They're usually administered poorly. "Sell more of this" is pretty much the playbook for most companies.

Is revenue sloping down to the right? Time for a SPIF.

New product to push? Throw a SPIF at it.

Quota attainment looking a little low?

It's SPIF time.

Most reps don't even understand what they're getting out of the SPIF. We've even heard of a SPIF *literally* being a bag of cash the sales reps got to dip their hand into when they sold one of the products in the promo.

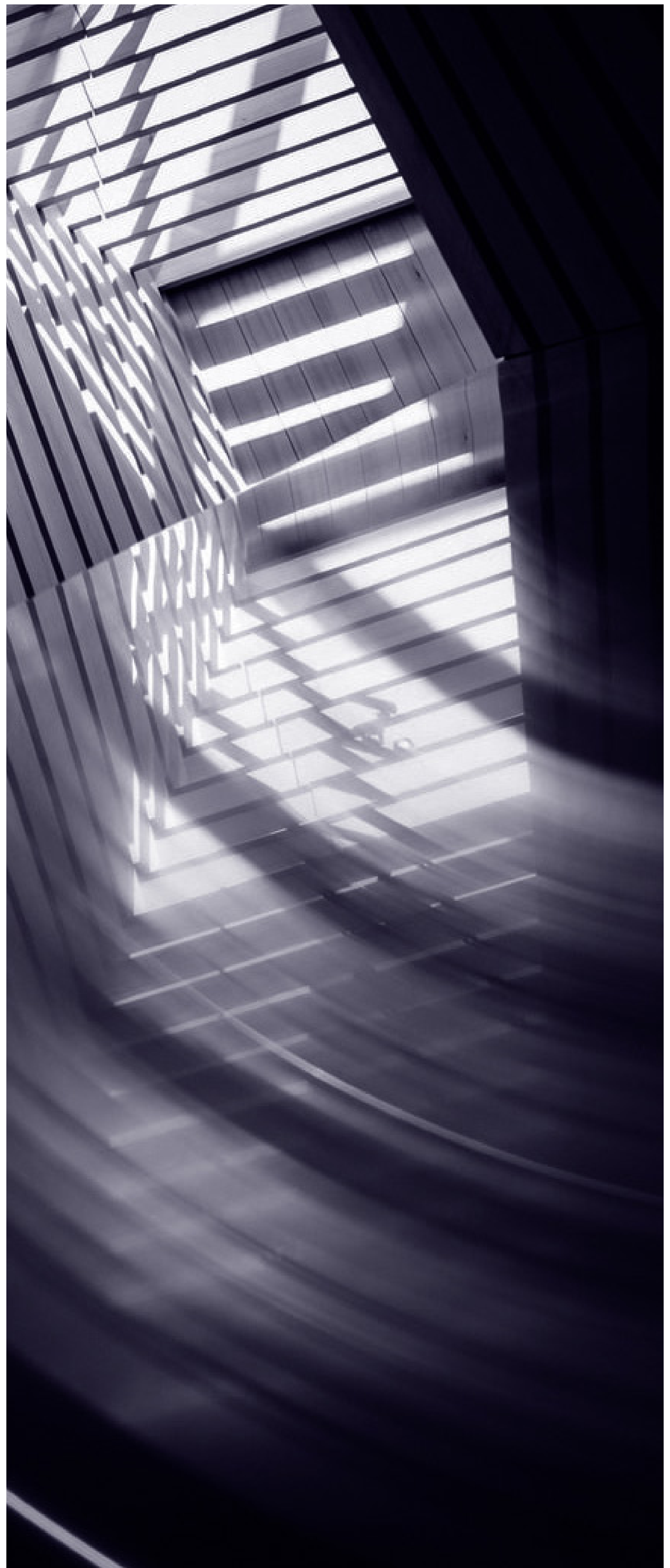
How many like-for-like product sales can you realistically credit to your SPIFs?

How much did the SPIF distract from other sales targets?

How much does your SPIF increase profitability?

Some? A lot?

Who spiffing knows...



> **"A spiff, spif, or spiv, is slang for an immediate bonus for a sale. It is a backronym, with invented words to fit the letters."**
>
> *— Wikipedia*

Reactive Planning

More often than not, SPIFs are a knee-jerk reaction to changing dynamics within the organization or marketplace.

They're a formalized way to throw money at a general sales problem (not enough sales) in the hope of achieving a general outcome (more sales).

SPIFs are ingrained in sales management because they move the needle to some extent. But only using them reactively means you're missing revenue opportunities and unnecessarily inviting risk into your finances.

The financial dangers of mistiming or planning a SPIF are very real. A poorly planned SPIF could result in over or under-indexing the intended result, driving the wrong outcomes, or worse, distracting and detracting from your core incentive plan.

Poor Implementation

The reactive nature of short-term incentives combined with the rigidity of most SPM solutions means there is rarely enough time to implement SPIFs properly.

You need weeks — not days — to plan, execute and implement SPIF into your ICM solution. Most organizations simply don't have the time to do it on top of day-to-day operations.

So, implementing SPIFs becomes a manual exercise and your analysts are forced to calculate payouts outside of the software, typically in Excel. That limits your ability to design the ideal SPIF (since it has to be dumbed-down to manage in Excel) and exposes your organization to the risk of calculation errors.

On top of all that, it crushes your teams' bandwidth because they need to drop everything to administer the SPIF.

Manual implementation and the extra resource load it brings also have a deeper, more severe impact on revenue.

If you're not planning SPIFs you're leaving money on the table.

Limited Visibility

Executing SPIFs on spreadsheets is the accounting equivalent of flying blind, inviting bad sales habits.

First, it's almost impossible to measure the performance of the SPIFs against your overall objectives. There may be a lift in sales or accelerated revenue for the period but how much of that can be directly tied to the SPIF? And more importantly, how much did the extra incentives that were paid out eat into the margin?

Low visibility on an employee level is another issue because it impacts how effective the SPIF is at incentivizing sales reps.

Most sales representatives only vaguely know how their compensation is calculated. SPIF plans further complicate that and because they're typically manually implemented, they're almost always paid out in one chunk at the end of the promotional period.

In the best case scenario (which isn't all that great), the rep will get a manual report that shows them how they are tracking against the objectives.

That leaves reps with almost no idea how much they ***could*** be making from hitting the SPIF targets.

In most other cases, the only thing reps will see after the SPIF begins is the final payment on their commission statement — when there is nothing they can do to change the outcome.

ROI Isn't Fully Attributable

Implementing SPIFs using spreadsheets is so cumbersome that typically very little analysis is done once the promotional period ends.

Any uptick in revenue or individual rep numbers is attributed to the SPIF. Any decreases or missed quotas are simply chalked up to seasonal variability.

More often than not, these questions go unanswered.

Given the reactive nature of the entire SPIF process, it's challenging enough to administer, let along audit and determine attributes. That's why SPIFs are kept so simple.

Passing off analysis of the SPIFs impact to another department has little use, as it usually falls on resources that did not plan the exercise and don't directly benefit from its success.

When analyzing a SPIF, the questions sales leadership should be asking:

- Did we see an uplift in product sales compared to historical trends?
- How much did running the SPIF cost in total?
- What was the ROI on the SPIF?
- Was it an acceptable impact?

Why are most SPM & ICM solutions built without SPIFs in mind?

The whole point of an ICM solution is to keep your incentive plan easy to administer, flexible, and auditable

02 HOW FORMA.AI APPROACHES SPIFS

> **“The design of SPIFs needs to be done with the same care and attention as the overall compensation plan.”**
>
> *Justin Lane — VP Professional Services, Forma.ai*

Be Proactive About SPIFs

Failure to plan is planning to fail. SPIFs that can be planned should be — in detail — during annual planning and forecasting.

Think of your SPIF program as an incentive promotions roadmap that corresponds to critical milestones, seasonal variability or market opportunities throughout the year.

Charting out a strategy ensures that all parties involved are integrated in the process and accountable for its delivery. Your Sales, Sales Ops, Finance, and IT teams will be ready to execute, ensuring you get the most out of those extra incentive dollars.

Key Learning:

When you can get clean, valid data about your cyclical sales periods and SPIFs that are proven to work, you can use short-term incentives to drive predictable, measureable increases in sales on specific product lines.

Proactive SPIF Roadmap

01 **Quarter 1**

Create a bonus with a quota for renewing weak segment customers.

02 **Quarter 2-3**

Plan a SPIF to award extra quota credit for selling the new product for the last month of the quarter.

03 **Quarter 4**

Create a new business leaderboard for Q4 with large payouts for the top 3 reps.

Align to Broader Sales Initiatives

SPIFs are a great way to reinforce broader sales organization initiatives, such as supporting a promotional pricing period for a critical product.

When you have access to reliable data, it's possible to roll out a SPIF on sales of a product and know the exact margin it will return, no matter how many you sell.

An organization's annual SPIF budget shouldn't exceed 5% of its incentive program budget.

Allocate a Specific Budget

If the cost of the SPIFs isn't accounted for in the budget, you can easily be left without enough funds to support the intended outcomes.

The benefit of an integrated SPIF planning process is that you identify most of the SPIFs that will be rolled out during the year and can allocate the budget and model accruals forecasts accordingly.

Time your SPIF perfectly.

Planning SPIFs proactively allows you to align with other organizational initiatives fully.

Even better, roll out a product training initiative for the sales organization before the SPIF and the pricing promo, so the organization is fully ready to execute.

What if you don't have the budget?

If you can't add the total budget to your incentive compensation programs, consider carving out 2% - 5% of your core incentive program budget.

How? Reduce commission rates for reps significantly below quota or slightly increase thresholds. Then, reallocate the additional funds to your SPIF budget.

Always Assess the Impact

Once the SPIF program is over, assess how well the SPIF performed against objectives. This seems like an obvious step but, as mentioned earlier, most SPIFs are implemented with a mess of manual calculations that are rarely analyzed or audited.

As your organization becomes more sophisticated with SPIFs and utilizes them at volume, you can experiment with more advanced tests.

More advanced SPIF testing methods

- Offset the timing between regions to create control groups.
- A/B test SPIF structures across different regions.
- Created tiered incentive programs to motivate lower performing reps.

> **"A poorly forecast SPIF could end up costing more in compensation payouts than it brings in revenue."**
>
> *-Kyle Webster — VP Customer Ops, Forma.ai*

03 NO MORE SPIFS?

Reactive SPIFs aren't bad

Rolling out a SPIF in response to an unforeseen circumstance is still prudent.

Reactive SPIFs have been and will continue to be an essential tool for driving action in sales organizations. But we challenge the notion that SPIFs ***need*** to be reactive.

SPIFs can and should be integrated into your broader incentive compensation program. Doing so will help your organization get more out of your dollars — much more.

Only using SPIFs reactively is like a roast turkey without the stuffing. There's nothing wrong with it, but everyone involved finishes a little disappointed.

The main issue with SPIFs is that they're too difficult to execute in most incentive compensation management solutions so they get implemented manually. That causes a host of issues.

Only using SPIFs reactively is like a roast turkey without the stuffing.

Ensure your ICM solution is up for the task

Managing SPIFs separately from your incentive compensation software — in spreadsheets or elsewhere — brings in all the issues around visibility and reporting that the ICM solution was designed to prevent.

Visibility and tracking for reps are where many SPIFs fall flat. Your team won't be motivated if they can't see how well they are performing or don't believe the SPIF impacts them.

Build or integrate live dashboards and leaderboards, and stack rank payouts, crediting multipliers, and quota-based bonuses to squeeze the mileage out of the SPIF.

Give reps a real-time view of their performance where possible, so that they can adjust their behavior to hit the objectives set out in the SPIF — and reach their earning potential.

04 CASESTUDY: PROACTIVE SPIF

Customer:

Global SaaS Provider

Background:

This organization operates a very seasonal business, with most renewals occurring in a single quarter.

The cyclical nature of the business results in a bandwidth crunch for sales reps. Representatives are encouraged to renew contracts early in the year. For example, renewing a contract that expires at the end of August in March.

Forma.ai's Solution:

Every year, this organization uses Forma.ai to roll-out a pre-planned SPIF for all of Q1 (Feb - April) focused on driving early renewals.

The SPIF is structured as a bonus based on the amount of renewal business that can be closed in Q1. This SPIF was effective until mid-March when COVID hit, which caused most reps to miss out on achieving bonus payments.

By the end of Q1, early renewals were drastically down and sales reps were dejected. This is the perfect example of when a reactive SPIF can be very powerful.

In May, the organization launched a new SPIF based on the number of business reps that could close, for contracts expiring in June or later. Sales representatives were given three quotas — stretch, large stretch, and super stretch, each with an escalating flat dollar payout.

Results:

$65K

Spend on the SPIF

$1.4M

YoY increase in early renewal revenue.

52%

YoY increase in early renewal bookings.

+

Huge boost in sales rep engagement and happiness

Sales Compensation Has Evolved.

Our AI-powered platform fully automates sales performance administration and forecasting, creating highly flexible incentive plans that drive revenue, instead of rigid commission structures with little measurable impact.

We handle more than $1 billion in annual managed commissions.

Any Plan. Any Rules.

Spend 60 minutes with us and we'll show you how.

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