



What are EIM and ICM?

A Market Niche Comparison

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A General Overview:

In times past, most business managers became familiar with the term Enterprise Incentive Management (EIM). A term much less familiar is Incentive Compensation Management (ICM). Although both address the management of incentives within a company, their focus is, and should be, very different.

EIM takes the perspective of a company's overall strategic objectives and attempts to align employee performance with those objectives through compensation incentives. The EIM focus emerged from the Customer Relationship Management (CRM) movement as companies looked for ways to improve their interactions with employees and customers.

ICM takes on company incentive plans in a much less visible, but a more tangible, way. It focuses totally on the accurate collection and management of revenue data used to calculate incentive compensation. Where EIM tends to address the tracking aspect of the compensation management process, ICM is designed to address compensation at its most critical point: accurate and cost-effective payouts.

Although some market analysts use the terms ICM and EIM interchangeably, the terms denote different areas of focus and address rather distinct business objectives.

Enterprise Incentive Management:

EIM focuses on a high-level perspective of an enterprise's performance. Business objectives are defined at the corporate level. Divisions or departments within the organization subsequently develop strategies and incentives designed to align employee behavior with corporate strategy.

Key to the success of EIM is the effective tracking of employee performance. Compensation incentives are attached to performance targets, which, if met, qualify them for additional compensation, as defined by the performance plan. A common area where companies use incentive management is within its sales organization. Sales quotas, performance history, or other such measures can be used to determine a sales person's overall compensation.

Typically, a sales person receives a specific monthly sales target. The sales person's compensation is tied to how well he or she performs against that target. Some of the more eloquent EIM solutions use formulas that can calculate commissions based on a wide variety of factors such as the mix of products sold, timing of the sale, position within a sales team and several other variables.

Sales targets, or quotas, allow management to allocate a certain percentage of a company's performance to individual divisions. Each division passes that responsibility down to the individual employee. The enterprise establishes incentives to motivate employees and departments to achieve their targeted objectives. Using an EIM tool,

enterprises implement performance-based compensation across virtually every department within a company.

Incentive Compensation Management:

ICM, on the other hand, is revenue centric. Its purpose is to align sales activities with corporate revenue objectives and ensure accurate compensation payments. The underlying premise of an ICM application is that the benefits of EIM are lost if incentive compensation is not calculated accurately.

Imagine how demotivating it would be for a sales person to accept challenging sales targets, to meet those targets, and then not receive the appropriate compensation. This happens more often than one would expect. According to The Gartner Group, “Sales organizations that fail to execute reporting and payments of incentive commissions in a timely and accurate manner will decrease sales force productivity by 20 percent because of lost selling time, reduced motivation and the absence of organizational trust.” Our research indicates that commission payments are inaccurate approximately 40 percent of the time in the communications industry. As these errors impact multiple departments (such as sales, finance and human resources), a \$100 error can cost a company thousands of dollars to correct.

Until now, a significant gap existed between creating strategic incentive compensation plans and executing them effectively. Glocent™ bridges that gap. In most companies, incentive compensation – a cost center that averages 10 percent of revenue – has been managed by little more than a collection of homegrown systems, inflexible desktop spreadsheets, and labor-intensive administrative processes. The result: mismatched goals, decreased productivity, and inaccurate and unpredictable costs. Glocent™ fully automates the process and ensures meaningful, accurate execution of incentives.

Which Tool Deserves the Greatest Attention?

At a time of shrinking budgets and tighter cost controls, some organizations might feel that, although both tools would be nice to have, they can justify purchasing only one. The question then becomes: Which tool will help us achieve meaningful incentive management and contribute real value to the bottom line?

An effective evaluation should include the following questions.

Does the company want to pay incentives based upon booked or actual revenues? EIM applications typically calculate compensation based upon order processing data. An inherent weakness in this approach is that orders do not always produce revenue. Some orders do not complete, others become cancelled, while others may not actually produce real revenue—zero sum transactions.

Can I ensure that the expectations created in an EIM tool will be met? If a sales person records 15 sales, and the EIM tool calculates a commission based upon those sales, the only way to meet these expectations is to ensure that revenue is generated from those sales. Otherwise, the EIM application will produce erroneous data, and future reconciliation becomes necessary. Ask a sales person if he likes giving money back!

Which tool provides immediate, quantifiable value? The Gartner Group offers insight into this question. “On average, companies that don't use information technology to track payments from customers overpay their employees by 3 to 8 percent of their bonuses and commissions.” Alorie Gilbert, a staff writer at CNET news.com, points out that, “Before an accounting scandal forced WorldCom into bankruptcy court this year, the company faced another kind of bookkeeping shenanigan: As much as \$4 million in phony sales commissions was pocketed by more than a dozen employees.” The best incentives are accurate incentives!

Summary:

Although EIM and ICM tools can actually compliment each other, they should not be used to address similar business objectives. Additionally, any potential user of these tools must understand the distinction between incentive management and compensation management. More important, a business must appreciate that incentives are compromised when they prove unreliable. No incentive program will be more effective than the credibility and integrity behind it.