

# SALES INCENTIVE HARMONISATION AT THE INDESIT GROUP

When designing sales incentive plans, many organisations struggle to find the right balance between aligning strategic objectives and keeping their sales force motivated — implementing global consistency while maintaining local flexibility is an additional challenge. This article gives an overview of Mercer’s involvement in recent efforts to harmonise sales incentive plans (SIPs) at Indesit, one of Europe’s leading domestic appliance manufacturers.

## PROJECT OBJECTIVES AND SCOPE

Indesit’s range of products includes washing machines, freezers, and ovens. With annual sales of €2.9 billion, the company was ranked second in market share versus its competitors in 2012 and is a market leader in countries including the UK, Russia, and Turkey.

Indesit has a large and varied workforce, with more than 65 languages spoken among its 16,000 employees. Over the years, each country within the group had developed its own method of managing SIPs, but this disjointed approach was hampering organisational efforts to align business practices with broader corporate strategies. Towards the end of 2012, senior management realised that creating a harmonised approach to sales incentives was vital. The company brought Mercer on board to help assess and redesign the principles and delivery systems behind SIPs across all of Indesit’s commercial operations in order to deliver the desired strategic alignment and encourage better performance. Indesit also hoped to improve consistency and transparency across the business and boost motivation within the sales force.

## PROJECT ROAD MAP AND TIME FRAME

Indesit and Mercer would focus their activities on the company’s main bases of operation. These 10 countries were analysed in depth and the resulting data formed the basis of the new sales incentive plans that would be adopted companywide. All sales force and trade marketing staff were included in the project — with more than 20 roles within those functions, this amounted to more than 500 employees.

Indesit's planned schedule for the SIP review and redesign added a layer of complexity to the project: the company was keen to have a detailed implementation plan ready within eight weeks (half the time allowed for comparable projects undertaken by Mercer). In order to meet that deadline, both parties deployed fast-response core project teams; Indesit's team received additional support from its six commercial directors. A steering committee was formed, consisting of Indesit's global chief commercial officer and head of HR.

Once the early planning was complete, Mercer drew up a project road map comprising three main phases: assessment, design, and financing and validation.

### PROJECT PHASE 1: ASSESSMENT

The initial phase involved qualitative and quantitative analysis of the SIPs that were in place across all Indesit locations. In order to draw out the key information that would feed into subsequent analysis and road-mapping activities, Mercer evaluated company documentation and data, and interviewed 15 commercial directors and global HR directors in order to ensure that any revised SIPs would be in line with the company's rewards philosophy.

The assessment phase was based on two clusters of activity: 1) understanding strategy and structures; and 2) conducting an inventory of existing arrangements. Understanding corporate strategy was vital — defending its competitive position in key markets such as the UK was a priority for Indesit, but increasing its market share in fast-growing markets such as Russia was also important.

As part of the role-mapping process, more than 80 job titles within Indesit locations were identified. One issue was that, very often, the same job was given a different name in different countries; Mercer used a standard job model to create a streamlined list of roles and was thus able to reduce complexity in this area.

An inventory of current SIPs in different locations yielded a diverse and inconsistent picture. The disparities were principally due to the local business environment and to the local commercial directors' limited capacity to create an SIP that was aligned to a wider strategy. For example, target bonuses varied between locations, as did caps, thresholds, and delivery plans (some were bonus-based, some commission-based, and others a mix of the two). Payout frequency also varied widely, ranging from monthly to quarterly or even annually. It was evident that significant rationalisation — and a more systematic corporate approach — was needed.

The primary output of Phase 1 was a detailed report that summarised the above findings and suggested guiding principles and proposals for a streamlined and more effective SIP system. The report also made clear that plans and practices would need to be harmonised across all of the group's locations, and a balance found between corporate goals and local offices' need for some degree of flexibility. In addition, Mercer provided market best-practice benchmarks to enable Indesit to compare its practices with those of other industry players.



## PHASES 2 AND 3: DESIGN, FINANCING, AND VALIDATION

### DESIGN

With an end goal of producing a detailed plan design, the core Mercer team concentrated on pinning down the most important elements of the new SIP arrangements during Phase 2. Cost simulations were run so that Indesit could assess affordability before final validation was secured from the steering committee and the final implementation plan was drafted.

As a first step in that process, Mercer and Indesit jointly assessed the results of Phase 1. Six design elements for the revised SIP were identified: eligibility; key performance indicators; bonus opportunity; pay mix; pay for performance and mechanics; and payout frequency.

Deciding on the correct pay mix for Indesit staff provoked much debate. Typically, pay mix comprises three elements: upside opportunity, variable pay, and base salary. In Mercer's view, different sales force roles within Indesit should have different pay mixes according to each role's impact on the sales process. (This ties into sales theory, which holds that pure business development should be paid on commission only.) It was suggested that sales support staff — including those engaged in planning activities, customer services, and even trade marketing — should have a more conservative pay mix, such as 90% base salary and lower upside opportunity.

When finalising the pay mix, however, it was important to factor in issues such as local practices — even though performance and payout ranges would be defined centrally, individual offices would need to have some leeway to ensure that they were competitive in their respective markets. To this end, Mercer recommended that pay levels be applied depending on local market practices.

Mercer introduced caps and thresholds for each role in each location as part of the SIP system, and also defined three different types of incentive curve (which set the link between acceptable performance ranges and bonus payout), each of which was consistent with local situations in terms of business life cycle, volatility, and economic landscape. Those incentive curves had to be implemented in the various Indesit geographies, clustered in three groups: “predictable”, “volatile”, and “downturn” market. Each country's commercial director was required to select the range that best described the market in which he or she was operating.

### COST SIMULATION

Analysing cost scenarios for Indesit was an important part of the project. Different performance scenarios were modelled using actual and historical individual performance data, so that Indesit was able to check SIP affordability overall and specifically for each role in each location, based on the level of revenues and profitability associated with the performance scenarios shown. Although this was primarily an internal conversation, Mercer provided benchmarking data on compensation cost of sales for different industries, giving additional context to the discussion.

### IMPLEMENTATION PLAN

Once the final redesigned SIP arrangements had been developed and the steering committee had approved them, Mercer developed a final implementation plan to ensure quick adoption as well as internal buy-in. Indesit put in place various

communication tools and processes, and offered training to local HR teams and selected sales managers. Much of this process was managed centrally, but the goal-setting process, potential adjustments to the compensation administration system, and the production of automated performance scorecards and reports would be handled at a local level.

Ultimately, Indesit decided to manage the SIP transition process itself, but Mercer suggested that regular reviews of the plan by staff working on the “front line” should be conducted; such reviews would allow Indesit to spot problems and address any teething troubles as the new plan bedded in.

## EARLY RESULTS

Although the revised SIP system is still in its infancy, in Indesit’s view considerable strides have been made towards the overall project goal of strategic alignment. The new arrangements have been adopted in all countries and have been well-received in the main; the initial in-depth analysis and design phases made a huge contribution towards a robust and effective new incentive structure.

Indesit has noted more resistance to change in those countries where the revised SIP system represented a radical departure from the existing plan — challenging market conditions in some locations have also made the transition bumpier. However, on balance, and even though fine-tuning is needed in some places, Indesit is managing the transition positively and keeping staff motivation high.

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