



## PODCAST

To listen to the entire interview, log on to [www.FuturePharmaUS.com](http://www.FuturePharmaUS.com)

**MICHAEL CAPALDI**, Associate Vice President for Sales Training and Leadership Development at sanofi-aventis U.S., speaks with **DAVE CALDWELL**, Vice President of the Pharmaceutical Sector at Maritz, about innovative compensation and incentive programs

### **Michael Capaldi** How are the transformational changes in the pharmaceutical commercial sales model impacting the application of sales incentive programs?

**Dave Caldwell** It's happening in myriad ways. There are many changes happening today, with public perception, increased competition, heightened regulatory requirements, and new interactions between physicians and patients. The combination of all these things is forcing pharmaceutical companies to reevaluate how they are operating and designing their commercial models. We're seeing physicians looking for their pharmaceutical companies and sales representatives to show up at their practices in a new way, and bring real value not just in terms of product information, but information related to delivery of care.

We're seeing this desire for more relevant solutions around delivery of care manifest itself in a number of ways. First of all, new commercialism models are requiring sales forces to have a much broader and deeper knowledge of the health system as a whole, as opposed to just specific product knowledge. Pharmaceutical companies are developing centers of excellence at the regional level, and decentralizing their sales forces in an effort to get their sales teams closer to the local customer base so they can better understand their nuances.

This approach results in sales training focusing more on performance consulting and coaching. It is forcing organizations to assess a sales representative's ability to make empowered decisions in terms of how they manage and call on their territory. From an incentive standpoint, it's forcing organizations to help those sales representatives move outside of their typical comfort zone and call on new audiences, and it's raising the level of accountability that's expected. We also see that manifest itself in the potential for cross-selling solutions that are incorporating other sector adjacencies, even including things like devices. Pharmaceutical companies are collaborating with the device manufacturers to take combination product offerings to the market, and to offer more comprehensive solutions to their customers.

All of this is resulting in smaller, more focused sales teams. It's requiring pharmaceutical com-

panies to cover the same amount of territory with fewer sales representatives than in the past. Therefore, these sales teams have to be much more efficient and effective and do more with less.

There are two key areas to the incentive strategies that pharmaceutical companies implement to support that. First, with those smaller sales forces and sales teams, it's requiring that the middle performers have to do better and produce more results. Typical sales structures focus on the right side of the bell curve. The bell curve is our visual representation of what we call the 10-80-10 rule: the top ten percent work hard and are driven, the ten percent at the other end you may wish to work for your competition, and then the majority of people are in the middle. More strategies are focusing on 'moving the middle', which means pharmaceutical companies are able to drive a much greater return on investment from their incentive and rewards strategies.

Many programs focus on the top 10 to 20 percent, but the gains you can get there are generally incremental because those people are already your top performers. In addition, you're always going to have a top 10 to 20 percent, regardless of the results of the organization. We design programs that focus on turning C-players into B-players, and B-players into A-players. With these smaller and more nimble sales forces, organizations identify with the need to focus on the total sales organization rather than just the top 10 percent. Companies are looking at managing the performance of the sales force in the same way that they segment their customer base into top performers, middle performers, and back end performers.

In addition to this shift in sales management strategies, these transformational changes also manifest themselves by pharmaceutical organizations studying the physician and patient experience. Companies want to know how they and their brands are perceived — how physicians expect them to show up, and whether their brand promise is being delivered. Pharmaceutical companies are taking the research around physician experience and turning it into incentive and rewards strategies that are driving their sales reps to properly represent their brand, and represent the brand promise in the way that physicians expect and desire.

### **MC** How are clients dealing with the media and public scrutiny of sales incentives and rewards?

**DC** The intensified scrutiny in the industry has become known as the 'AIG effect.' This scrutiny is directed towards meetings, incentive trips, and customer events not only at struggling companies, but at companies that are doing well financially. However, despite some initial grandstanding by politicians and inaccurate media reports, we know that many of these events are meaningful and drive real results for companies. While we're not yet seeing an impact in pharmaceuticals which is positive, the meetings industry has taken a proactive approach to help companies identify best practices and guidelines.

Many of the third-party logistics providers in the industry, the United States Travel Association and a number of major travel-related providers have put together guidelines and recommendations on what makes an effective meeting. These include things like how many executive hosts should participate in an incentive trip, what should an organization's spend be on meetings and events, related to its overall sales and marketing budget, and how should a company put together a business case for meetings over a certain size. These guidelines are becoming helpful to companies across all industries, not only pharmaceuticals.

Additionally, from an incentive standpoint, some companies are starting to take a very strong pro-active approach publicly in terms of the value that incentives and annual reward trips can drive for shareholder value in terms of increasing sales and profit. For example, Computer Associates is promoting their annual incentive trips as a means of recruiting top sales talent from their competition, especially competition that may be scaling back in the face of some of this public scrutiny. Annual reward trips are very important to driving a company's bottom line. The ability to bring sales forces together, train them on new products and new messaging, and bring customers together to appropriately educate them on products is extremely important.

### **MC** How can you integrate customer experience research with sales compensation?

**DC** We look at different measurements and behaviors, and what behaviors lead to sales production

# Lower Cost, Higher Results

excellence, reinforcing the brand promises that pharmaceutical companies are making in the marketplace. It's about asking sales representatives to walk in patients' and physicians' shoes when they're making those calls and trying to deliver greater value. Companies are tying their research findings into specific and measurable behaviors for their sales force, which are often qualitative as well as quantitative. They may focus on brand awareness of both the product brand and company brand. The research strives to understand whether that brand promise is being delivered to the physician. Businesses want to know what the things are that a physician values in that sales representative interaction and their interaction with the company, and what behaviors the sales representative can deliver on a daily basis to make sure that that brand promise is being met.

On the front line, it's critical that sales representatives are delivering that message. We're

seeing programs focus on what the additional value that sales representatives can bring into that physician's office and practice. Tying that research into measurable behaviors and, especially, behaviors that are replicable across the organization then becomes key. Companies are taking a formalized approach to identify those best practices, determine what can be replicated and then engage in the field force and the self-design of what we call 'excellence programs' to communicate those behaviors to the entire field force, and then measure individual representatives on their ability to deliver. In effect, it's a process whereby we take physician research, i.e. what is the expectation of the physicians in terms of their interactions with the representatives, and then identify those representatives who are excellent at delivering results, and engage those representatives in terms of deciding and determining what it is that allows them to be successful,

and how we can replicate that. There's a formalized process whereby those behaviors and measures are communicated to the organization.

We use a balanced scorecard approach to weight the different categories. Sales production is critical, but other behaviors also lead to excellent sales production and physician interaction. As we said earlier, when we talked about moving the middle, it's an opportunity for people to improve at their own pace and at their own level. So, if we can move that middle part of the sales force, we will see much greater results from a financial and a profitability standpoint. It's a move beyond the top performer model to a more evolved and flexible approach to rewarding improvement. We can see where slight increases in that middle part of the organization can lead to dramatic increases in terms of physician satisfaction scores and, of course, sales production and results.



# “YOU CAN EFFECTIVELY FUND A NON-CASH INCENTIVE PROGRAM AT A MUCH LOWER SPEND-RATE THAN IF YOU USE CASH, AND GENERATE EQUAL RESULTS.”

## MC How are alternative reward strategies mapping back to cost containment for pharmaceutical companies?

DC The answer to that lies in two key areas: One is value and one is actual cost. First, let's take a look at value. Typically, alternative rewards strategies involve some form of non-cash incentives, which, especially in the pharmaceutical industry, have proven to be a greater motivator than cash for specific performance improvement initiatives. By specific performance improvement initiatives, we mean, when those non-cash and alternative strategies are used as part of an overall rewards strategy. They're not done as a standalone, but they are incorporated into the total rewards approach — including base pay, cash commissions, benefits, leased cars — all of the things that make up the way a pharmaceutical company rewards and recognizes its sales force.

There was a study several years ago by the American Compensation Association called 'People, Performance, and Pay,' that found a three-to-one greater return for non-cash awards versus cash awards, when used appropriately for specific performance improvement initiatives. In effect, what their research found was that to get the equal sales results took about 12

cents of every incremental revenue dollar when cash was used, as opposed to four cents of every incremental sales dollar when non-cash awards were used. That means you can effectively fund a non-cash incentive program at a much lower spend-rate than if you use cash, and generate equal results. Why is that?

There are several benefits and reasons why non-cash rewards have been proven to drive greater performance than cash incentives. Number one is trophy value. That is, from a standpoint of a memorable award, things that people can talk about that are socially acceptable to share with family and friends and neighbors. It drives a very significant trophy value, and a high perceived value. Secondly, non-cash and alternative rewards are viewed separately from base compensation and they drive people to work beyond their comfort level. So, typically, people will reach a certain income and comfort level in terms of paying the bills, and the quality of life that they're able to enjoy, and non-cash awards are proven to be much more effective at driving people beyond that comfort level. They're highly promotable because they are viewed as being separate from compensation; offer much greater flexibility for the sponsoring company or for the pharmaceutical company. This translates into programs using non-cash

awards can be adjusted, revised, or have specific start and end dates, and if business conditions require, they be ended or stopped. All of that can be done without the negative consequences as when cash is used and people have become accustomed to seeing additional money in their paycheck.

The second aspect is that the nature of non-cash and alternative rewards drive very significant and measurable cost-benefits for the sponsoring company. As I mentioned earlier, because of greater performance value driven by non-cash awards, companies can use a lower spend rate than they might with cash. Secondly, from a pure financial standpoint, typically non-cash awards are paid for at the time that they are redeemed by the associates, not at the time that they are issued, which is obviously the case with cash awards. So companies enjoy an improved cash flow benefit. Also, typically, non-cash and alternative rewards are paid for at the time that they're redeemed, not at the time that they are issued to the sales representatives. That allows the sponsoring company to benefit from the award breakage, which is the amount of unredeemed awards. Breakage typically runs between five and 10 percent of a total award budget, which can be a very significant cost saving for a large company with a significant spend. **FP**



**MICHAEL CAPALDI** is based in the Bridgewater, NJ., headquarters of sanofi-aventis and he is in his 10th year with the organization. Responsible for all training and development of nearly 10,000 field and headquarter-based employees, he has directed the implementation of all phases of training for groups including sales professionals, sales leadership, field medical, account management and brand management teams.



**DAVE CALDWELL** has 20 years experience in the performance improvement industry. Dave has held various positions from program design, operations, sales, strategy and sales leadership. He has worked with clients across industries, including Telecommunications, Financial Services and Pharmaceutical. Dave is currently serving as Vice President, Sector Leader for Maritz' Healthcare Sector. He is responsible for overseeing strategy and sales efforts across all healthcare verticals including Pharmaceuticals to develop and execute solutions across all Maritz business units including Motivation, Meetings and Events, Learning, Production and Creative Services, Customer Loyalty and Market Research for healthcare industry clients.



# Maritz®

The Science and Art of People and Potential®



Potential. It's the one thing that everyone, everywhere has in common.

Employees, sales teams, healthcare providers and patients all have the capacity to enhance your business. Because they are all human.

Maritz knows how to make the most of untapped human potential. We understand in the pharmaceutical industry, your success depends on the people impacting your business throughout the brand lifecycle. We can help optimize your brand performance by understanding these people, enabling them with tools and information, and motivating them to do their best. The results are often amazing.

We can help you realize the potential in the people who influence your business. To find out how, visit [maritz.com](http://maritz.com) or call us at **(877) 4 MARITZ**.