

COVID-19 and 2020 Incentive Compensation: Recommendations

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OVERVIEW

The 2020 Coronavirus Pandemic has caused financial uncertainty in the healthcare industry like in most industries across the globe. From a commercial operations perspective, this uncertainty is abundantly clear in the disruption of traditional in-person selling among pharmaceutical, biologic, and medical device sales forces and the impact of this disruption on sales performance.

Keeping the field force motivated and focused is crucial during any uncertain market event, whether the event is a “black swan” event like a pandemic or a more common industry event like a black-box warning or loss of exclusivity. Incentive Compensation (IC) plans are one of the primary tools sales management can adjust to influence sales team behavior and ultimately lead them through the “COVID-19 storm”.

This white paper details our recommendations for how to adjust 2020 IC plans in light of COVID-19.

Index Terms – COVID-19, Incentive Compensation

I. COVID-19 and Healthcare Marketing (Projected Impact)

Many economic and social commentators speculate the Coronavirus Pandemic is a “black swan” event, a theory that can be defined as a rare event that can have major and difficult to predict impact upon society [1]. Regardless of the status of this pandemic, COVID-19 is a novel coronavirus from a biological perspective and as such, it is causing a novel disruption throughout the healthcare industry.

Many healthcare companies have delayed clinical trials due to not being able to see subject participants who are social distancing or utilize medical facilities that are prioritizing treating those infected with COVID-19 [2]. From the manufacturing and supply chain side of the business, companies could experience delays if active pharmaceutical ingredients, chemicals, lab equipment, or other supplies experience shortages if those supplies are sourced from countries that diverted much of their healthcare resources toward fighting COVID-19 [3][4].

Healthcare sales teams are also facing novel challenges. Most of our clients are reporting that their sales forces are working remotely due to hospitals, clinics, and other

treatment facilities restricting access to physicians and other key stakeholders that sales representatives meet with as part of their regular job function. This disruption to the status quo of a sales representative’s daily activity will undoubtedly have an impact due to the relationship between in-person selling behavior in the pharmaceutical industry and subsequent physician prescribing.

The positive correlation between in-person selling activity by healthcare companies and physician prescribing has been demonstrated in an abundance of academic studies. In a systematic review of studies from 1992 to 2016 that explored “interactions between physicians and the pharmaceutical industry including sales representatives and their impact on physicians’ attitude and prescribing habits,” researchers found that “the company’s pharmaceutical sales representatives have been found to affect physicians’ prescribing behavior [5].” This link has been confirmed by Tegra through our work performing sales effectiveness analyses for many of our clients.

It is not clear at this time how long restrictions on in-person physician detailing will last, but it is likely to have an impact on sales, especially among products that are deemed “promotionally sensitive” given the large dependence healthcare companies are on in-person selling rather than more indirect forms of non-personal promotion. In this way, according to ZS Associates, “47.3% of physicians engage well with in-person pharma rep meetings, but just 9.6% of physicians engage with digital tactics.” [6]

There are many ways healthcare sales and marketing organizations can do their best to make up for the loss of in-person selling through boosting non-personal promotional avenues such as telesales calls, virtual speaker programs, targeted online advertising, television advertising, and direct mail. However, our statistical models show the effectiveness of these types of campaigns relative to physician prescribing are not an adequate substitute for a sales force engaging face-to-face with health care providers. Therefore, it is crucial for organizations to plan for how COVID-19 will impact prescriber behavior, while also balancing sales representative motivation both during and after the crisis subsides.

II. IC Plans and Rep Motivation

An IC Plan is a variable compensation program outside of an employee base salary that is designed to influence employee behavior that aligns with company culture,

corporate goals, and individual or group performance. Common IC plans in healthcare sales include commission, quota, stack ranking, grid, cooperative, and subjective methods like management by objectives (MBO).

The optimal IC plan for an organization depends on a variety of factors including company culture, product maturity, product portfolio mix, sales rep job function, variability of historical data (if needed for forecasting), and more. Regardless of these factors, IC plans should be fair, defensible, and tailored towards the organization's needs.

IC plans (along with sales contests) are the primary tool sales management can adjust to influence sales team behavior outside of manager and home office communication. Given the importance of IC plans as part of influencing employee behavior, it is crucial to consider how they can be modified to lead sales teams through the "COVID-19 storm."

III. Assessing the Impact of COVID-19 on your Sales Force

The impact of COVID-19 on healthcare companies will likely be case-by-case in ways that may be hard to predict. However, we believe this crisis will likely impact healthcare sales organizations in some way during the end of Q1 and part of Q2. In a worst case scenario, the impact on sales could potentially extend into Q3 or Q4 if present guidelines on social distancing are extended indefinitely or the impact on the greater economy impacts the industry negatively.

As such, we believe it is important for all healthcare sales organizations to reflect upon their 2020 IC plan and determine whether adjustments should be made.

To begin this process, we recommend sales management reflect on the following questions:

- During COVID-19, what should the day-to-day job of the sales force be? Does this job differ from before the impact of COVID-19?
- If the organization does not adjust their IC plan for COVID-19, could this lead to a negative impact on sales force motivation, retention, or the bottom line?
- Is the organization considering modifying the number of full-time employees of its sales force, such as sales force resizing or shifting sales reps from full-time to part-time employment?

Organizations should keep their answers to these questions in mind as they consider how to adjust their 2020 IC plans.

IV. Q1 2020 IC Plan Recommendations

It is crucial to consider the impact of COVID-19 on upcoming 2020 sales and how to adjust the IC plan to accommodate for this impact given Q1 is now complete.

Since quota plans are one of the most common and computationally driven IC plan designs, the following are options to consider if your organization has a quarterly or annual quota plan that utilizes geography-level forecasted goals:

- Pay reps based on their individual goal attainment for January-February. For March, pay the full sales force 100% of the payout allocated for that month.
- Pay reps based on their individual goal attainment for January-February. For March, pay the full sales force 50% of the payout allocated for that month and have 50% of the payout based on their individual goal attainment.
- Pay reps based on their individual goal attainment for January-March. However, discount the entire quarter's goal by 10-25% based on the projected sales impact of COVID-19.
- If Q1 sales are expected to be impacted in January or February in addition to March, consider paying the sales force based on the full target payout.
- If there is a strong belief sales will not be impacted in Q1 2020, consider not making any adjustments to the Q1 2020 plan. However, if a review of data used for IC reveals this belief to be incorrect, consider revisiting how reps are compensated for Q1 (or consider a payment true up in a later quarter).

For organizations that do not have quota plans for Q1 2020, we recommend splitting the Q1 plan similar to the methodology outlined for quota plans (i.e., leaving the plan as is for Jan-Feb and paying target for March) or potentially paying full target payout to all employees for the quarter if this additional administrative work is deemed superfluous.

Ultimately, it is important for organizations to identify if above scenarios align with the situation surrounding how the company is impacted by COVID-19 and is dealing with the crisis to date.

V. Q2 2020 IC Plan Recommendations

How organizations deal with their Q2 IC plan is largely a function of whether current restrictions on visiting health care providers are lifted in Q2 and if so, when they are lifted.

As of the publication of this whitepaper, it is highly likely the Q2 IC plan will be substantially impacted. We have the following recommendations for Q2 for organizations with quota plans:

- If the sales force returns to the field in early May 2020, we recommend paying their full target payout for April and for individual goal attainment for May and June against an adjusted goal.
- If the sales force does not return to the field by early May, we recommend paying full target payout for the quarter. It is also worth considering replacing a payout guarantee with a Q2 MBO and/or a quick start contest.

For organizations that do not have quota plans for Q2 2020, we recommend splitting the Q2 plan similar to the methodology outlined for quota plans above or potentially paying full target payout to all employees for the quarter.

VI. Q3- Q4 2020 IC Plan Recommendations

If company sales forces are back in the field during Q2, we recommend adjusting the Q3-Q4 IC plan by balancing several factors such as minimizing disruption, flexibility, and data-driven action. More specifically, prioritization should be given towards minimizing disruption of the plan previously established for the year, while being flexible and data-driven with how the IC plan may have been disrupted in Q1-Q2 and subsequently how this could impact Q3-Q4. In this way, we recommend resetting all quotas in the following way:

- If quotas are set from a “top-down” methodology, in which a nation or corporate goal is used to allocate geography goals based on percentage contribution, we recommend adjusting the nation goal via June update and considering how specific territories may need to be adjusted if access issues differ across geographies that aren’t captured in the prior goaling methodology.
- If quotas are set from a “bottom-up” methodology, in which territory goals are determined based on trending the data or using statistical modeling to incorporate multiple predictors to forecast sales trajectories, we recommend revisiting this methodology to ensure it is still valid.

In the event sales forces are not back in the field until Q3, we recommend designing an alternative IC plan for Q3-Q4 2020. The following are potential IC plan options for this scenario:

- **Q3-Q4 MBO IC Plan:** Instead of providing incentive pay based on sales performance, consider paying based on a mix of remote work-based objectives. These objectives could be activity-based or administrative based. Activity-based objectives could include telesales calls, virtual speaker programs, and delivery lunches to doctor offices, while administrative objectives could include online learning, facilitating superior

customer service to patients and doctors, and providing feedback to management and/or analytics teams to improve existing targets, doctor office address information, reporting, and more. This could be an ample opportunity for your organization to use rep workload to crowdsource solutions for issues that the company normally only has time to address a few times each year.

- **Q3-Q4 National Team Goal Plan:** Instead of providing incentive pay based on individual sales performance, consider paying all sales representatives evenly based on how well the company does against a regional or national goal (it is important to adjust this goal for the projected impact of COVID-19). This type of plan can preserve an IC plan based on sales performance without unfairly penalizing territories that were unduly impacted by COVID-19.
- **Target Payout or Percentage of Target Payout:** Instead of redesigning a new IC plan, consider paying all sales representatives a guaranteed target payout or percentage of target payout. Consider coupling this plan design with quarterly quick start contests or combining with a sales performance or MBO/activity-based component for rep engagement.

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