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**PRE
QUATE**

Can you add back 5% to your bottom-line by rethinking ‘partnerships’?

Businesses today work across several channels – but seldom spend time thinking about what matters to them. With Prequate’s help, **Arma*** learnt that with intelligent balancing of incentives and long-term goals, you can make more **together**.



0 Organization profile

company name:	Arma*
model:	Technology
segment:	Software services
age:	7+ years
size:	HC: 100+ employees
revenue:	\$6M+

* Names of businesses have been masked with generic names to protect client confidentiality and honour executed non-disclosure agreements. Further, information which is extremely specific to a company and could be considered as critical nature, indicative of trade secrets, proprietary intellectual property or a sensitive part of a current or closed investment banking related transaction that Prequate assisted on have been substituted with similar information.

1 Overview

Company's performance at the time of this exercise was:

- Cost of sales at ~23%
- Reliance on several business development channels
- CAGR @ 30%+ since last 3 years

2 Problem statement

Arma was hitting a growth spurt with its investments in relationships in overseas markets paying off. Their visibility to the target market had grown significantly with the primary sales channel being introductions from highly qualified and experienced marketing and sales lead generation consultants and advisors.

The problem was increasingly becoming 3 pronged:

1. **Short-term:** Despite achieving consistent growth, the margins were becoming significantly narrower.
2. **Long-term:** Lack of predictability of relationships as introducers may not necessarily be loyal in perpetuity.
3. **Longer-term:** Incentives after a certain period were far more in favour of new supplier introductions than current relationship.

3 Beginning a journey with Prequate

Prequate was brought on board to overhaul their reporting systems and momentarily design a system that could manage to provide a blend of:

- lasting loyalty to the **Arma** and its business goals
- ensure higher involvement in relationships brought in
- incentives more aligned with continuity than limiting to sales

During this period, **Prequate** was to take charge of the entire reporting process for the organization with key stakeholders both inside and outside the organization.

4 Knowing the why

Within the first few months of working with the organization, Prequate was able to identify a few interesting indicators that collectively point out that a solution was needed:

- > Huge expenses on commissions payable to Business development teams on new business generated
- > Commissions at standard rate of pay out of flat rate on sales made against a purchase order because they were 'established business practice' often not re-visited due to fear
- > Incentives to close more relationships than to enable depth with more projects

“

Incentives are wrongly understood to mean immediate benefits. Though they make initiations attractive, there is no real incentive to create depth. Solving problems with existing practices requires an external team who can challenge current thinking, create new perspectives, analyse potential outcomes, and put it to action.

“

Prequate

5 The approach

The first step to solving a problem is understanding incentives and how they really work in keeping motivations aligned to goals.

1. Does it keep the teams **motivated**?
2. Is there **continuous incentive for continuous involvement**?
3. Do incentives **breed loyalty**?
4. Do the incentives **accrue for greater involvement**?

A new incentive structure was needed to facilitate these outcomes.

5 The adopted approach

▲ Step 1

Detailed contract study

Identify and develop a master tracker of all commission agreements and relationships across the organization across all partners – *current and old*

▲ Step 2

Responsibility matrices

Break down all the activities in a commercial project flow and detail all responsibilities handled – *internal & external*

▲ Step 3

Reorganize with points of influence

Reassemble activities with influence indicators (high, medium, low) where internal & external can have an influence

▲ Step 4

Create an index by importance of activities

Develop an index which assigns weight against the activities considering the long-term goals of the organization which may or may not be key responsibilities of the stakeholders currently

6 The assets

▲ Step 5 Create a new incentive plan

Create a new plan that allows for participation in more aspects than just initiation and which could create avenues for more responsibility being accepted by the external stakeholders

TOTAL COMMISSION				
	1 st PO	2 nd PO	Year 2	Year 3
Lead Generation				
<= USD 500,000	2%	1%	1%	0%
> USD 500,000	3%	2%	1%	0%
> USD 1,000,000	4%	3%	2%	0%
Conversion				
<= USD 500,000	3%	2%	0%	0%
> USD 500,000	4%	3%	0%	0%
> USD 1,000,000	5%	5%	0%	0%
Account Management				
<= USD 500,000	1%	1%	1%	1%
> USD 500,000	2%	2%	1%	1%
> USD 1,000,000	3%	3%	1%	1%
Final on USD 1.5 Mn	12%	11%	3%	1%
Total	12%	11%	3%	1%
New scheme average	7%			
Earlier scheme average	12%			
Net Savings	5%			

▲ Step 6 Deploy

Initiate conversations with all the current partners as well old partners of the new scheme which allows them to earn more from relationships over time

7 Result?

Measurement period: **365 days**

Increased profitability:

- ▲ Net profits increased by ▲ 5% as compared with earlier scheme across the organization

High adoption:

- ▲ ▲ ~80% of all the partners accepted the new incentive scheme over the next quarter itself as it allowed them to be more involved and look for more opportunities
- ▲ An expert partner also joined the Board of the company as relationship was deeper
- ▲ Several partners initiated conversations for new engagements within 1-2 months of the new scheme

Faster TATs:

- ▲ Increased efficiency of the business development teams as partners were now beginning to play a more hands-on role
- ▲ Significant participation in sales planning activities by the partners

8 Result?

“
Prequate has always delivered results when it mattered most to us. They were extremely accountable to the initiatives and were able to bring a very different approach every time. Plus they really understood technology and even more importantly, the people aspects.
”

President, Arma

PRE QUATE

website

If you want to
see what else we do

See our thought
leadership

see more

book time

If you want to book
a quick call with the team

About Prequate

Prequate is a management ^ finance advisory that acts and manages as a Business Finance, Strategic Finance & Management Assist group. Over the last 10+ years, Prequate has worked with 350+ businesses in 20+ industries across 25+ countries and has been covered by various publications for its breakthrough approach to advisory.

connect@prequate.in
+91 73 49 69 29 00