

Retaining Critical Talent with Customer-Focused Rewards at



Burke, Inc. is a leading international business research and consulting firm. Since it was founded in 1931, Burke has been helping manufacturing and service companies understand and accurately predict marketplace behavior. Burke is known for its analytical capabilities, leading-edge research methods, and consultative ability that help companies drive improvements through a comprehensive understanding of their markets and clients. Burke is among the 20-largest marketing research and consulting firms in the United States. Its partner, Infratest Burke AG of Munich, Germany, is the world's seventh-largest research-based consulting company. Burke provides business solutions to its clients in four areas of expertise:

1. ***Burke Marketing Research*** (BMR) provides full-service custom marketing research, analysis, and consulting for consumer and business-to-business product and service companies to help them understand marketplace dynamics.
2. ***Burke Customer Satisfaction Associates*** (Burke CSA) offers specialized services in customer satisfaction measurement and management to a wide range of business categories. Burke CSA's Secure Customer Index provides industry and "best in class" standards for assessing and improving customer-driven practices in order to improve customer retention and loyalty.
3. ***Burke Strategic Consulting Group*** (BSCG) offers services in implementing strategic change through service lines that include employee surveys and evaluation, work process reengineering, activity-based costing, selection systems, executive assessments, and coaching for top-level managers.
4. ***The Training & Development Center*** (Burke TDC) offers public seminars on marketing research, data analysis, customer satisfaction measurement, and qualitative research techniques.

The Role and Challenges of the Senior Consultant/Account Executive

The employees purchased Burke from Control Data Corporation in 1989. Over the next few years, they began to understand that part of what they bought was an enormous

amount of fixed costs—substantially beyond what was reasonable for a professional service business. In addition, the company had lost a number of senior staff members—not to entrenched competitors, but to small businesses that were starting up and that were becoming competitors. Also, during the year or so after the purchase, Burke began to install a customer focus program within the company, creating both a culture and specific mechanisms for better understanding customers’ requirements and expectations and significantly increasing its ability to respond to them. The senior consultant or account executive is a key role in Burke’s business. This is a sales and consulting position with responsibility for overall account development and account management. Individuals in this role have the responsibility for selling and servicing all Burke products and services. They are organized into specific areas of expertise (e.g., customer satisfaction, strategic marketing research, and specialized consulting services). Regardless of the specific area of competency, senior consultants are responsible for proposal preparation, sales presentations, program design and management, oversight of analysis of results, responsibility for results presentations, and further consulting with clients as necessary. Overall, the responsibility of the senior consultant position is to develop and maintain a profitable consulting practice within the overall service and product lines of Burke.

In many ways senior consultants are the link between Burke and its customers. Because of the strategic changes, the company needed to gain the full support and effort of the senior consultants. If Burke were ever to achieve the desired strategic objectives, senior consultants would need to be close partners in this process. The company decided at that point to make fundamental changes in its compensation program and develop a performance-focused plan. The new program had four principal objectives:

1. ***Realign fixed and variable costs.*** The senior consultant staff was the most expensive per head asset, so “salary creep” occurred in the organization. That is, regardless of whether revenues and profits were increasing, it needed to increase compensation “at market or better” to remain competitive. Thus, the company was increasing fixed costs with no guarantee that it was increasing profitability sufficiently to cover these costs. The new compensation plan needed to realign fixed and variable costs associated with these internal assets.
2. ***Retain best performers.*** When the company lost a top performer, it was almost always because he or she was starting a competing business, rather than going to a traditional competitor. The primary interests of those who left were the independence of running their own business and the higher compensation potential. The new performance compensation plan needed to offer senior consultants virtually the same opportunities that they might see in leaving Burke to start their own business. In addition, Burke would continue to provide attractive marketing, operational, and administrative support, resources they would have to develop themselves in starting their own businesses.
3. ***Incorporate customer-focus measures into company operations.*** Consultants and everyone else at Burke accepted the customer focus program in concept, because

it was the core business of Burke. To make it real to staff, the company needed to find ways to incorporate it into company operations. There appeared to be no more direct statement of the importance of customer satisfaction to the company's success than to link that concept directly to compensation.

4. ***Increase the company's market leadership, revenues, and profits.*** The growth of the company had stalled, and yet the market was expanding.

Burke needed to reposition itself as a market leader. The senior consultants were key to this strategy. Their compensation plan needed to emphasize revenue growth, with particular focus on growth in profits. In addition to these objectives, the development process identified a paradox of core values that needed to be resolved in the new program. The success of Burke depended on the collective success of the organization. If Burke were to grow the share value of the company substantially beyond the original investment of its shareholders, it would require a collective effort. It would have to take advantage of the diversity of skills and experience at Burke to market effectively to new customer segments, with new products and services.

Burke would have to function as more than a collection of individuals; its whole would have to be greater than the sum of its parts. But individual contributions would be expected and rewarded. Each individual would be expected to contribute to the company's overall success. Exceeding the minimum individual contribution would be recognized and rewarded. Without some truly outstanding individual performances, the company's overall results would invariably suffer. The new performance compensation program needed to balance collective success and individual rewards in order to implement Burke's strategy and strengthen its leadership in the market.

How the Program Works

The compensation program is composed of three parts—base salaries, performance pay, and referral commissions. Each of these elements is described below, with an expansion of the measures associated with the performance pay program. Base pay for the senior consultant staff is considered a fixed annual cost and is set within relatively narrow ranges by level. It is reviewed annually for possible adjustment based on consumer price index (CPI). Base pay by individual may be supplemented through a “draw” (advance pay against projected future performance pay earnings) or through a “subsidy” (additional, nonpermanent supplemental pay typically for people moving into the senior consultant role from outside the firm).

Performance pay is the variable portion of compensation and will be driven by individual results for the year. Early in one's sales and consulting career, it is not expected that performance pay will be a substantial portion of total compensation. Initially, Burke will provide base salaries at a level that exceeds the short-term (annual) financial contribution of the individual, as it invests in skill development and business building. As individuals

grow their financial contribution beyond the investment cost, they will receive performance pay commensurate with contributions beyond the individuals' cost. At the senior-most levels, performance pay will be expected to provide a substantial proportion of total compensation. The variable pay program utilizes three core measures for determining payouts:

1. The level of individual financial contribution
2. The ratings on external customer feedback (external customer focus)
3. The ratings by internal teams (internal customer focus)

Financial Contribution

Senior consultants had their own profit and loss (P&L) statement generated by personal sales, the project delivery costs, and personal operating expenses. The financial contribution is measured on an individual P&L basis by "net contribution." The key elements of the senior consultant P&L used in the calculation of net contribution are shown here:

REVENUE: The Revenue from all clients being served by the senior consultant's practice.

DIRECT JOB COSTS: The costs incurred directly on all client projects.

GROSS MARGIN: The difference between revenue and direct costs.

EXPENSES: The labor and other expenses, such as base salary and benefits of senior consultants and direct reports' expenses (e.g., travel and living) needed to maintain practice.

OFFICE SUPPORT: Expenses for maintaining the consultant's office (e.g., rent or equipment leases).

PROFESSIONAL SUPPORT: The cost of support provided by other staff at Burke not directly charged to a client project.

NET OVERHEAD: The total of all expenses.

CONTRIBUTION: The differences between the gross margin and net overhead.

CORPORATE OVERHEAD: The expenses deducted from contribution to cover a portion of corporate overhead.

NET CONTRIBUTION: The contribution minus corporate overhead.

PERFORMANCE COMPENSATION: The percentage (significant) of net contribution to the consultant with the remainder going to the company.

Senior consultants are responsible for generating revenues at sufficient levels and managing the associated costs so that addressed profitability is generated that ultimately results in corporate profitability. This encourages strong selling efforts, targeting of profitable and long-term clients, and efficient management of account servicing efforts. Senior consultants can draw on company resources for support, but since these expenses are charged against their P&L, they are encouraged to use this support efficiently. Company resources (overhead) are “fixed” and all consultants need to share in ensuring that the costs of these resources are covered. Furthermore, the plan has a “self-accelerating” feature: Once the costs are covered, senior consultants are personally rewarded with a significant split of each additional dollar earned by their projects. This encourages the user then to “think and act like they were running their own business.” In almost all business decision making cases, the correct decision is taken—one that serves the company.

External Customer Focus

Each senior consultant is measured with the Secure Customer Index (SCI). Through Burke’s own customer satisfaction program, it monitors clients’ satisfaction with the same type of monitoring program it developed for clients to monitor their customers’ satisfaction. The minimum standard for each senior consultant is to achieve an SCI equal to the overall company target. Any performance pay earned will be reduced by the same percentage that a consultant’s total SCI falls below the company target.

The SCI is made up of three critical ideas: The group of customers who (1) are very satisfied, (2) will definitely recommend you to others, and (3) will definitely repurchase from or continue to use your products and services in the future.

An index is computed based on the ratings in these three areas and compared to the overall company’s standard. The customer satisfaction program also emphasizes recovery with dissatisfied customers. This could involve working with internal staff members to correct a problem or working directly with the client to fix any problems. By documenting the problem and what was done to resolve the issues, the senior consultant can “recover” from any affect a dissatisfied customer might have on performance pay.

Internal Customer Focus

This is a survey of each senior consultant’s performance by internal Burke staff members who have worked with the individual during the performance period. A minimum average overall rating is required, which indicates the consultant is adequately meeting the needs of the internal support staff and directing them to meet the needs of external

clients. Consultants are evaluated up to three times during the fiscal year on this measure. Any performance pay earned is reduced by the same percentage that a consultant's overall rating falls below the minimum standard.

Business Development Referrals

In addition to their direct business development activities, senior consultants are encouraged to refer business to other areas or assist them in achieving new business. This directly supports Burke's culture of collaboration and improves the company's ability to grow. The performance compensation program rewards these results by providing additional compensation for referrals and sales assistance activities. Referrals are any client opportunities or requests for proposals that business development leaders provide to other areas of the organization. Sales assistance includes any work a senior consultant may perform that enables another consultant to achieve the sale. When results are achieved by these actions, the "supporting" consultant will receive a royalty on any revenue generated by the "managing" consultant. The royalty will be charged as a cost to the managing consultant and applied to the net contribution of the supporting consultant.

Finally, the performance compensation program maintains several important provisions and special features. Performance incentive pay is paid out at the end of the fiscal year. Only members of the consultant staff who are employed by the company at the date of payment are eligible to receive the performance pay. The company can pay up to 20% of the performance pay in company stock rather than in cash. Any payments in company stock will be made at the time of fiscal year-end performance pay distributions and will be in compliance with all necessary legal requirements. At the end of the first six months of the fiscal year, individual performance pay earned for that period will be reviewed, as well as the individual's business outlook for the remainder of the year. Up to one-third of the performance compensation earned through this period may be paid out. If consultants are unable to cover their midyear incentive compensation payment by the end of the fiscal year, the amount not covered will carry over into the following fiscal year and be shown as a decrease to their performance compensation.

Primary Outcomes of the Program

Burke's senior consultants have realized significant benefits from this program. Some are financial and others are qualitative, but all are strategic and have strengthened the firm's abilities to grow and be competitive. The results include:

1. Not a single senior consultant that the company has wanted to keep has been lost to a traditional competitor or to a start-up company in the five years since the plan was implemented.
2. Consultants have a much stronger understanding of the financial imperatives and operations of the company at a corporate level. They are better business managers.

3. Non-chargeable travel and living costs were reduced by 20% the first year and have been maintained at a substantially lower percentage of revenue than prior to implementation of the plan.
4. The first year of plan implementation was the first profitable year for the company following two unprofitable years since the company was purchased.
5. During the four years since the plan was implemented, performance compensation payments have increased by a factor of 6 and company profitability has increased by a factor of 9.5.

Key Lessons Learned From the Program

When an organization alters the compensation for one of its most critical positions, there is a strong sense of risk. When Burke assessed the opportunities versus the risk, it knew that there might be situations where the program would not achieve its objectives. However, the importance of the change was clearly worth the potential risks. The company learned several important principles necessary to the implementation of similar programs. First, the program could be set up as a win-win; as the consultants generated increased personal compensation, the company generated increased profitability (and it would not work in reverse order).

Second, performance-based compensation can be self-funding. Performance-based compensation can help to transfer some fixed costs to variable costs and create self-controlling mechanisms. The costs are variable and only need to be covered if sufficient profitability is generated to cover the costs of increased compensation. Performance-based compensation can increase overall company profitability.

Third, the program fulfilled its objectives because personal compensation was not tied to office, region, company goals or performance. It was never considered “bonus” or dependent upon other performance metrics outside the control of the individual consultant. It was earned on the basis of individual performance metrics.

Fourth, the program required consultants to focus on being good business managers, not just on being good business developers and consultants. This has led to a better understanding of the costs to deliver projects and the corporate success factors as a whole. As a result, they make better business decisions that benefit not only their own practices, but the company as well. In the majority of situations, the best business decision for an individual consultant practice is also the best decision for the company.

This approach required risk-taking on the part of the consultant and the company; the consultant can no longer depend on consistently increasing compensation through standard base salary adjustments. High performance generates commensurately high compensation in a given year. However, average or below average performance in a

given year generates lower compensation than one might have expected from a standard, annual increase in base salary. The risk for the company is that if only a small segment of the staff generates exceptional revenues and profits and the remainder of the staff is below average, a very high percentage of company profitability is returned to those few high-performing individuals. The system only works to the benefit of individual staff and the company if the majority of staff members are high performers.

This type of performance compensation system can appear overly directed to individual performance and not sufficiently concerned with teamwork among peers. Yet the royalty systems installed have encouraged team activity among consultants and made team-based incentives a more important part of the overall compensation system. In the future the company will continue to explore ways to reinforce teamwork with team incentives and other forms of special recognition. The issues that relate to retaining the senior consultants have diminished dramatically, enabling Burke to explore additional strategic drivers of the business and develop support systems for those drivers that directly contribute to the success of the organization.