



***Rewards That Work:
Case Studies on Variable
Pay Solutions***



***Concord, MA
September 12, 2012***

The Primary Themes for Today's Session

- 1. Compensation is more than just a mechanism to distribute cash.***
- 2. When compensation is designed and managed in a vacuum, it is seldom effective. Companies cannot afford to waste money.***
- 3. When implementing organizational change, if you don't deal with the implications on compensation, you are only solving "part of the problem."***



The Primary Themes for Today's Session

The Process for Designing a *Total Rewards* Program:

I. Define the Firm's Strategy

and
Role of the
Principal

II. Assess Current Program

Effectiveness
and the Support for
Change

III. Design the Program

--Base Salary
--Incentive Comp
--Total Rewards

IV. Implement the New Program

-- Mgmt. Systems
-- Communications
-- Training

V. Assess the Impact & Upgrade

Over Time



Overview of Our Case Studies

- 1. A Professional Service Company:**
Variable Pay Plan – Simplify, Organize, and Energize.

- 2. A Commercial Products Company:**
Sales Compensation Plan – Reinforcing Changes in Sales Strategy and Roles.

- 3. An Energy Services Company:**
Long-term Incentive Plan – Creating a Stake in a Major Expansion Project

Case Study #1 – Variable Pay Plan

Background:

- ❑ A leading commercial architectural design firm
- ❑ Target group: Principal, Project Leaders and Senior Managers
- ❑ Current plan was highly complex, with over 20 different measures, a complex algorithm for determining bonuses, then discretionary judgment to adjust for “extenuating” factors.
- ❑ Coming out of a recession period, and poised for growth – but it needed a little push!!!

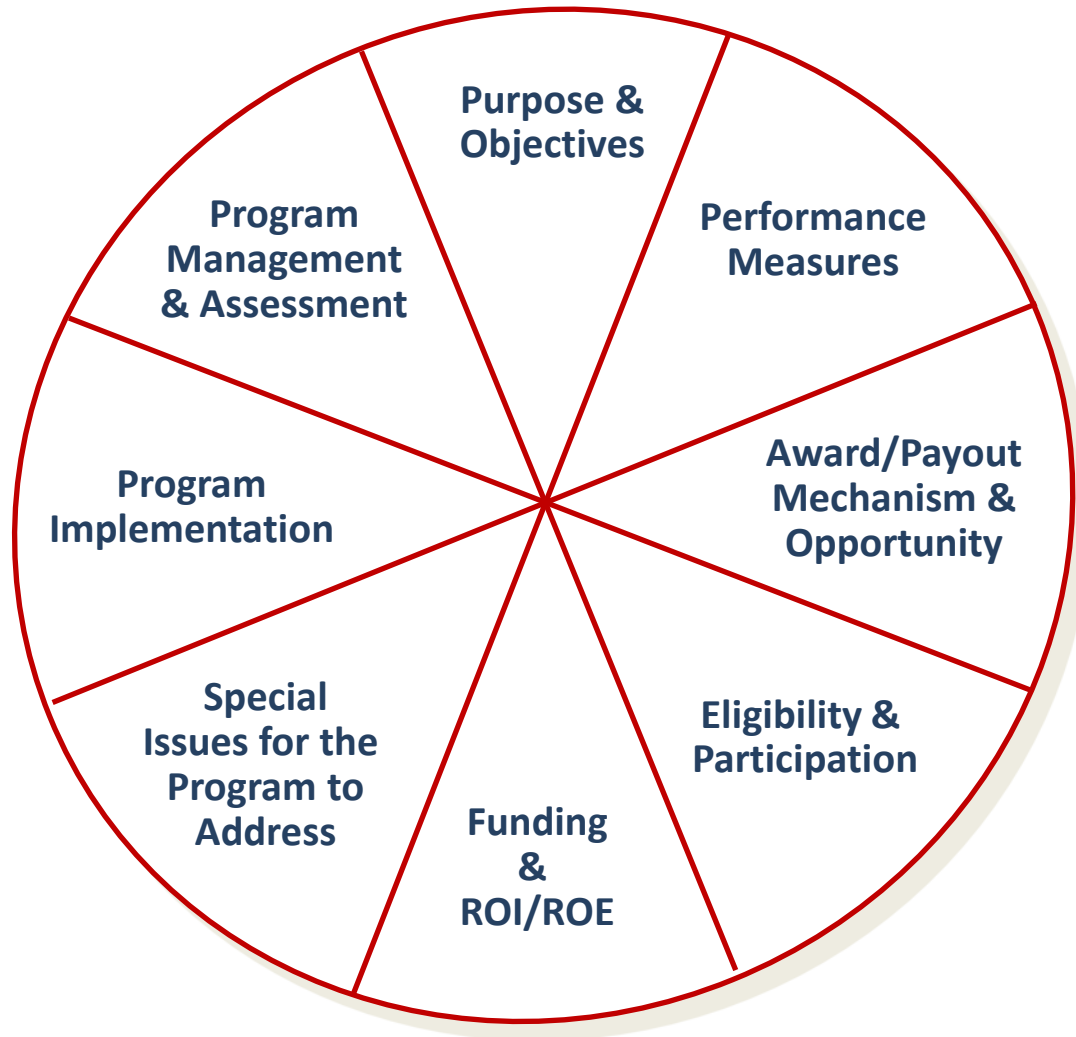
Case Study #1 – Variable Pay Plan

Organization was implementing strategic changes:

FROM:	TO:
<p>Everyone expected to sell work</p>	<p>Some sell, some are thought leaders, some are creative designers – <i>Unique Abilities</i></p>
<p>Bonus plan focused on:</p> <ul style="list-style-type: none">» Corporate profitability» Individual billings and sales	<p>Need to reinforce 3 core industry teams plus sales and project profitability</p>
<p>Business developed relied on relationships and responding to RFP's</p>	<p>Market the company's core competencies, sell new work to new and current clients</p>

Case Study #1 – Variable Pay Plan

Elements in the Design of Variable Pay Programs:



Case Study #1 – Variable Pay Plan

Key Performance Measures:

Corporate:

- Growth in total company revenues
- Company profitability (Operating Income)

Industry Teams:

- Project revenues

Individual:

- Individual work won (Sales)
- Individual projects managed (Profit contribution)
- Personal quality and development goals

Case Study #1 – Variable Pay Plan

Performance Scorecard

Principal's Name:

Target Payout

Performance Measures:	Weight	Threshold					Actual Performance		Target Payout
		50%	75%	100%	125%	150%	Actual	Score	\$ 50,000
<i>Payout percent</i>	<i>Weight</i>	<i>50%</i>	<i>75%</i>	<i>100%</i>	<i>125%</i>	<i>150%</i>	<i>Actual</i>	<i>Score</i>	<i>Payout</i>
Total Company Revenues	10%	AA	BB	XX	CC	DD	\$ -	0%	\$ -
Total Company Profit Margin	15%	12%	14%	15%	17%	18%	0%	0%	\$ -
Practice Revenues	15%	YA	YB	YY	YC	YD	\$ -	0%	\$ -
Personal New Work Won	25%	ZA	ZB	ZZ	ZC	ZD	\$ -	0%	\$ -
Personal Project Profitability	25%	\$ 640,000	\$ 720,000	\$ 800,000	\$ 880,000	\$ 960,000	\$ -	0%	\$ -
Personal Goals	10%	1.0	2.0	3.0	4.0	5.0	0.0	0%	\$ -
TOTAL PAYOUTS	100%							0%	\$ -

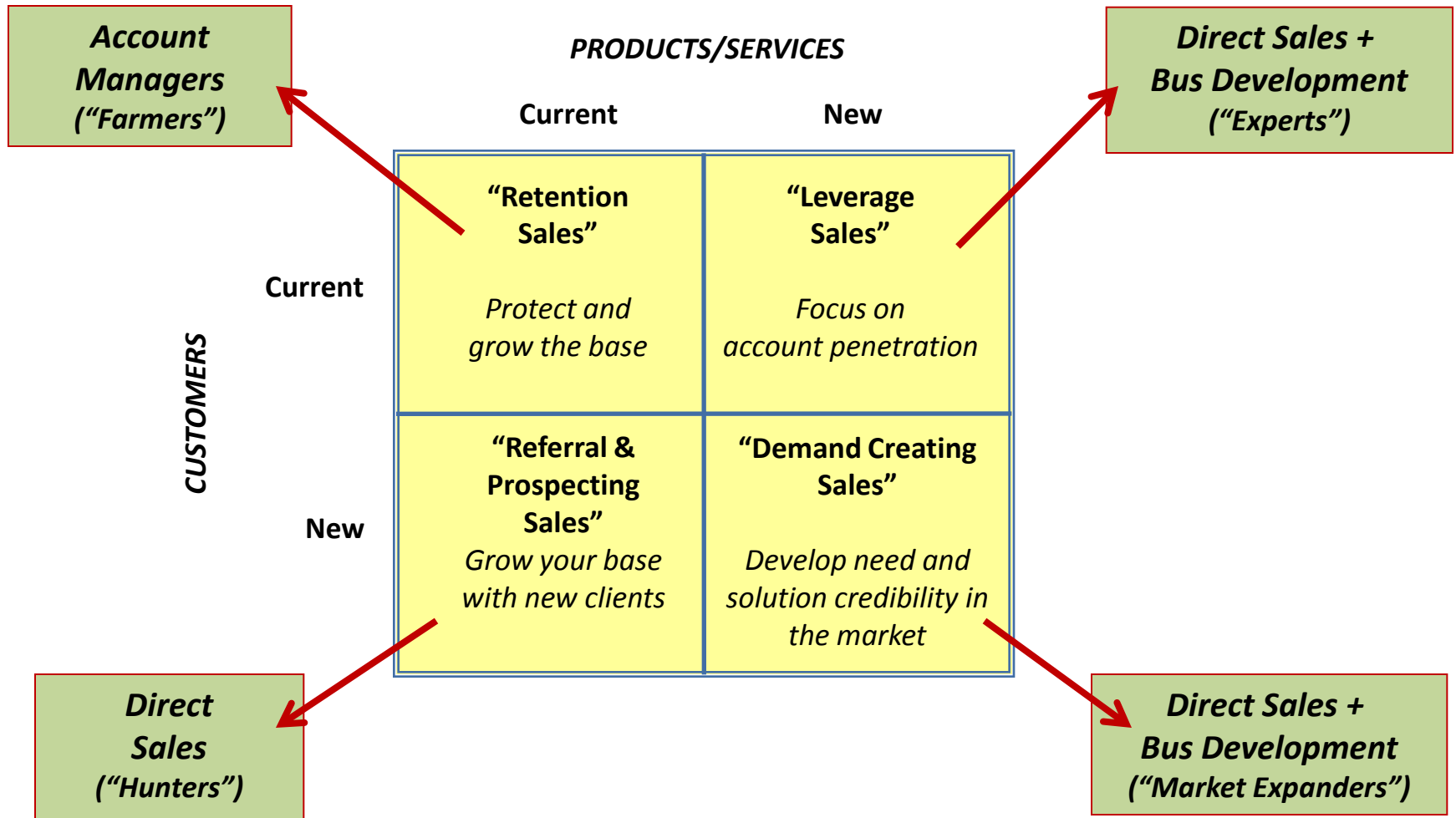
Case Study #2 – Sales Compensation Plan

BACKGROUND: Key Sales Challenges

- Company needs to **increase revenues** from existing customers and through generating new customers that fit our desired profile.
- We need to generate business from **new customers**. This will require time to invest in new markets and leveraging on current customer relationships.
- We need to **retain current customers** and expand the number of products/services within these customers. This will require more time, skills and collaboration to accomplish.
- We need to **increase the level of relationships** with key influencers and buyers to establish strategic relationships with customers and multi-year contracts.

Case Study #2 – Sales Compensation Plan

Aligning the customer expansion strategy with the sales roles:



Case Study #2 – Sales Compensation Plan

Key Design Elements:

1. **Primary objectives of the plan**
2. **Participation** – Eligibility requirements
3. **Performance measures** – by unit (i.e., individual, shared, team/dept) and type (revenues, # units, contract terms)
4. **Performance period** – for measuring performance and determining payouts, discrete vs. cumulative
5. **Quotas/Goals** – range of goal, degree of challenge, how established
6. **Target pay and range** – payouts at target performance, threshold, upside opportunity
7. **Pay mix** – degree of mix between base salary and variable
8. **Payout mechanism** – type of method (i.e., commission, bonus, scorecard, etc.)
9. **Sales crediting/sharing** – when and how shared goals are used and who gets credit for what
10. **Payout qualifiers (thresholds), modifiers, and accelerators**
11. **Special contests, awards and SPIFFs** – special awards for achievement, promotional efforts
12. **Plan funding** – source for funding incentive payouts and awards

Case Study #2 – Sales Compensation Plan

Direct Sales:

Payout Mechanism -- Commission and Bonus Plans:

Sales Executive

Base salary range: \$60,000 - \$80,000

Commission Rates for Sales to New Customers (year to date, paid monthly):

Up to \$400,000	5%	\$20,000
\$400,000 - \$700,000	6%	\$18,000
\$700,000 - \$900,000	18%	\$36,000
Above \$900,000	14%	
Total		\$74,000

Quarterly Performance Achievement Bonus:

Q1	\$180,000	\$4,000
Q2	\$180,001 - \$447,000 (cumulative)	\$4,000
Q3	\$447,001 - \$642,000 (cumulative)	\$4,000
Q4	\$642,001 - \$900,000 (cumulative)	<u>\$4,000</u>
Total		\$12,000

Also eligible for “High Performance Bonus” – if sales in a month exceeds 115% of goal, individual earns additional \$1,000 bonus.

Case Study #2 – Sales Compensation Plan

Account Management:

Payout Mechanism – Bonus Plan

Account Executive:

Base Salary Range: \$70,000 - \$90,000

Bonus for Monthly Revenue Renewal % of Goal:

90%	\$1,000
97%	\$3,000
100%	\$6,000

Bonus for Sales of new products to existing customers:

Single product	\$500
Multiple product	\$1,000

Bonus for Days Sales Outstanding (Account Receivables):

21 days or less	\$300 per key account
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Bonus for Key Account Plan Implementation:

Threshold performance	\$1,000
Target performance	\$3,000
Exceptional performance	\$6,000

Case Study #2 – Sales Compensation Plan

Next Generation Improvements for the Sales Compensation Plans:

Sales Executives:

- Multiple product sales
- Follow the defined sales process
- Multi-year contracts
- Team rewards for national accounts
- Special awards for effective transition to Account Executives



Account Executives:

- Customer satisfaction
- Multi-year contract renewals
- Team rewards for national accounts
- Special awards for effective collaboration with Sales Executives

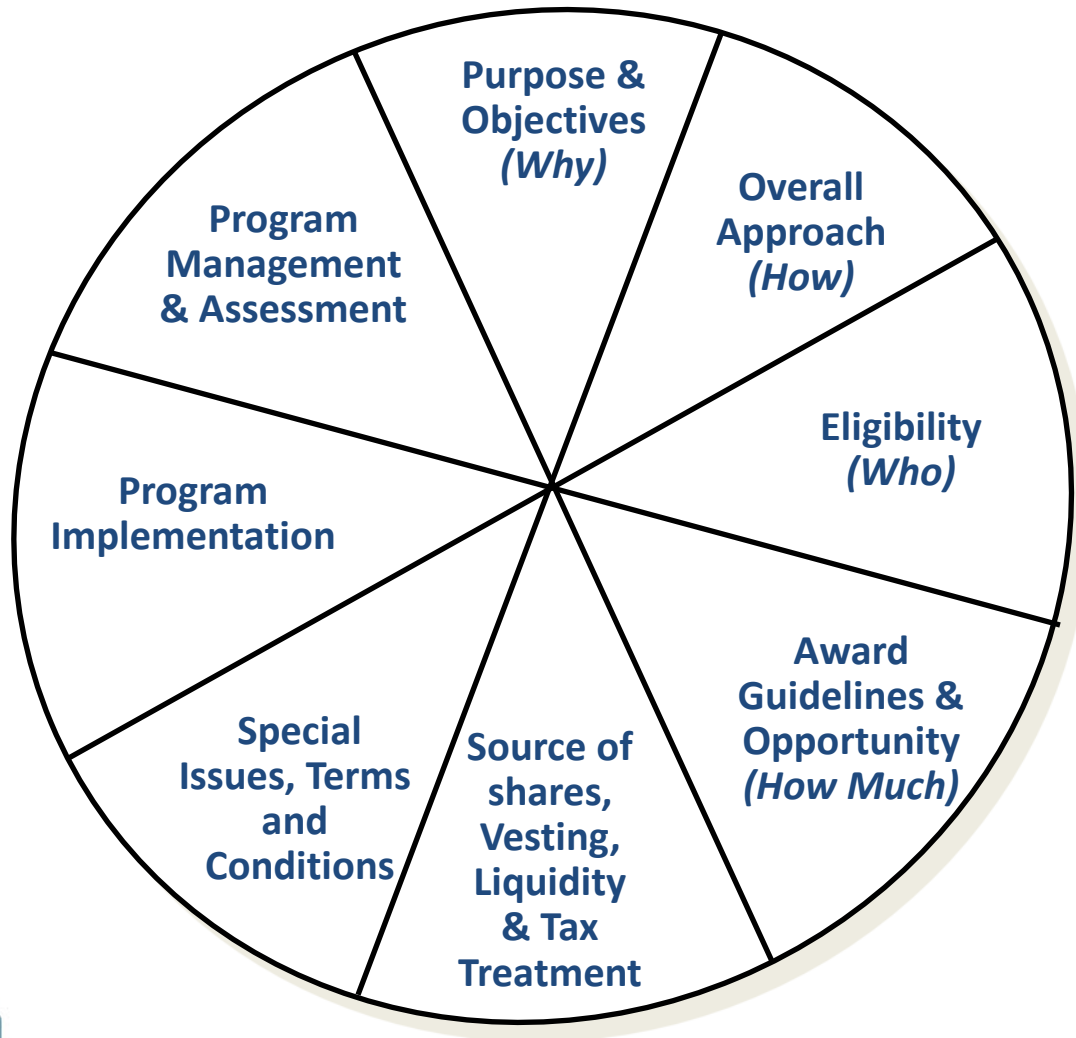
Case Study #3 – Long-term Incentive Plan

Background:

- A leading provider of natural gas based energy
- An independent subsidiary of a major Canadian energy company
- Recently received both board and regulatory approval to significantly expand its pipeline to new markets – will lead to significant growth in customers, revenues, and complexity.
- Executives have an annual bonus plan tied to operating and customer performance metrics, but no long-term incentive plan.
- While the expansion is exciting, it will also create significant new responsibilities on the leadership team.

Case Study #3 – Long-term Incentive Plan

Overview of the Key Decisions for Long-term Incentive Compensation Plan



Case Study #3 – Long-term Incentive Plan

Key Objectives of the Program

1. To focus, encourage and reward the successful accomplishment of the company's expansion pipeline project and maintain a high level of performance as a company (financial and customer service).
2. To retain key executives in order to provide business continuity for the company.
3. To increase the overall competitiveness of total compensation, to be fair and consistent.
4. To encourage and reward performance that increases the value of the organization to the customers, regulatory agencies and shareholders.
5. To encourage and reward the positive impact of the expansion project on the economic, environmental and job opportunities within the state.

Case Study #3 – Long-term Incentive Plan

Overall Approach

1. **The program will exist for the term of the expansion project and may be renewed or modified based on business conditions and strategic imperatives. This is estimated to be 5 years.**
2. **The company will establish key goals and milestones associated with the expansion plans and award individuals “units” based on the achievement of these goals. This will be done on an annual basis.**
3. **The units will be valued based on the successful completion of the expansion plan and the successful performance of the company. The units will be valued at the end of the performance period.**
4. **At the completion of this performance period (as defined by the expansion project plan and approved by the Board), the eligible individuals will receive the LTI payout awards.**

of Units x \$ Value of Units = LTI Payout \$\$\$

Case Study #3 – Long-term Incentive Plan

Target Number of Unit Awards and LTI Payout

Position	Base Salary	LTI Target Multiple	Annual Target LTI	5 x Annual LTI Target	Target LTIP Payout	No. of Units Guidelines Total	No. of Units Guidelines Per Year
Chief Executive Officer	\$ 300,000	30%	\$ 90,000	\$ 450,000	\$ 500,000	50,000	10,000
Chief Financial Officer	\$ 160,000	15%	\$ 24,000	\$ 120,000	\$ 120,000	12,000	2,400
VP Operations	\$ 150,000	15%	\$ 22,500	\$ 112,500	\$ 120,000	12,000	2,400
VP Sales & Mktg	\$ 160,000	15%	\$ 24,000	\$ 120,000	\$ 120,000	12,000	2,400
VP Supply Chain	\$ 175,000	15%	\$ 26,250	\$ 131,250	\$ 120,000	12,000	2,400
Additional Award Pool (New hires, promotions,					\$ 250,000	27,000	5,400
Total Compensation	\$ 1,245,000		\$ 186,750	\$ 933,750	\$ 1,230,000	125,000	25,000

Target Value of Units

\$10

Number of Units Available:

125,000

Case Study #3 – Long-term Incentive Plan

Unit Pricing Mechanism – Performance Scorecard

ILLUSTRATION:

LTIP Unit Valuation Scorecard

Target \$ 10 per Unit

Performance Measures		Threshold		Target		Exceptional	Actual Performance
Performance Score	Weight	50%	75%	100%	125%	150%	% Score
Pipeline expansion project is completed on budget	30%	115%	107%	100%	93%	85%	
Growth in Gross Income (% of 5 year goal)	15%	90%	95%	100%	105%	110%	
Growth in Net Plant (in \$ millions)	15%	AAA	BBB	CCC	DDD	EEE	
Service Quality Index-Improvement in Annual	15%	1	2	3	4	5	
Reduction in Greenhouse Gas Emmissions	25%	90% of target CO ₂	95% of target CO ₂	XX lbs. of CO ₂	105% of target CO ₂	110% of target CO ₂	

Total Unit Value



Case Study #3 – Long-term Incentive Plan

An Illustration of How the LTIP Awards Will Be Determined:

Executive:

Base Salary: \$150,000

Performance Contributions:

YEAR:	Number of Units Awarded:	Accomplishments:
2012	2,400	Initial grant
2013	1,000	Contribution to operations
2014	2,000	Project plan document
2015	4,000	Major project accomplishment
2016	<u>2,600</u>	Project full implementation
Total	12,000	

12,000 x \$10.75 = \$129,000 LTIP payout

What Makes Rewards Work?



Conclusions – What Makes Rewards Work?

- 1. Compensation plans need to align with the critical strategies and change initiatives of the organization. Measures are the key element.**
- 2. These plans need to be simple, but not simplistic.**
- 3. Base the plans on the “principles” of best practices, not on “imitating” what someone else does. Understand WHY something works.**
- 4. Build on what has been done in the past, but don’t be “shackled” by this.**
- 5. Use a combination of effectively integrated “tools” so they do what they do best.**

A Thought to Remember:

***“When you do common things in uncommon ways,
you command the attention of the world.”***

-- George Washington Carver

The Wilson Group

Our mission:

“To strengthen the competitive advantages of our clients by aligning all performance based reward systems with the strategies they need to succeed.”

- Executive and Board of Directors Total Compensation
- Sales Effectiveness and Total Compensation
- Employee Total Rewards
 - ✓ Base pay plan design
 - ✓ Variable pay plan design
 - ✓ Equity pay plan design
 - ✓ Performance management
 - ✓ Performance recognition

Publications and Resources:

Changes for Challenging Times: A Special Report, (Workscape, 2009).

Innovative Reward Systems for the Changing Workplace (McGraw-Hill, revised 2003).

Rewards that Drive High Performance: Success Stories from Leading Organizations (AMACOM, 1999).

Survey Report: Changes in Equity-Based Compensation Programs – (Wilson Group Publications, 2006).

Special Report: Changes in Variable Pay Program – (Wilson Group Publications, 2007).