

Strategic HR Conference - 10-28-12



Link Compensation To Values

*A Discussion on What Makes
Incentive Pay Plans Work*

**Wilson
Group**TM

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The Environmental Context

What We Are Hearing “Out There” from Our Clients and Others:

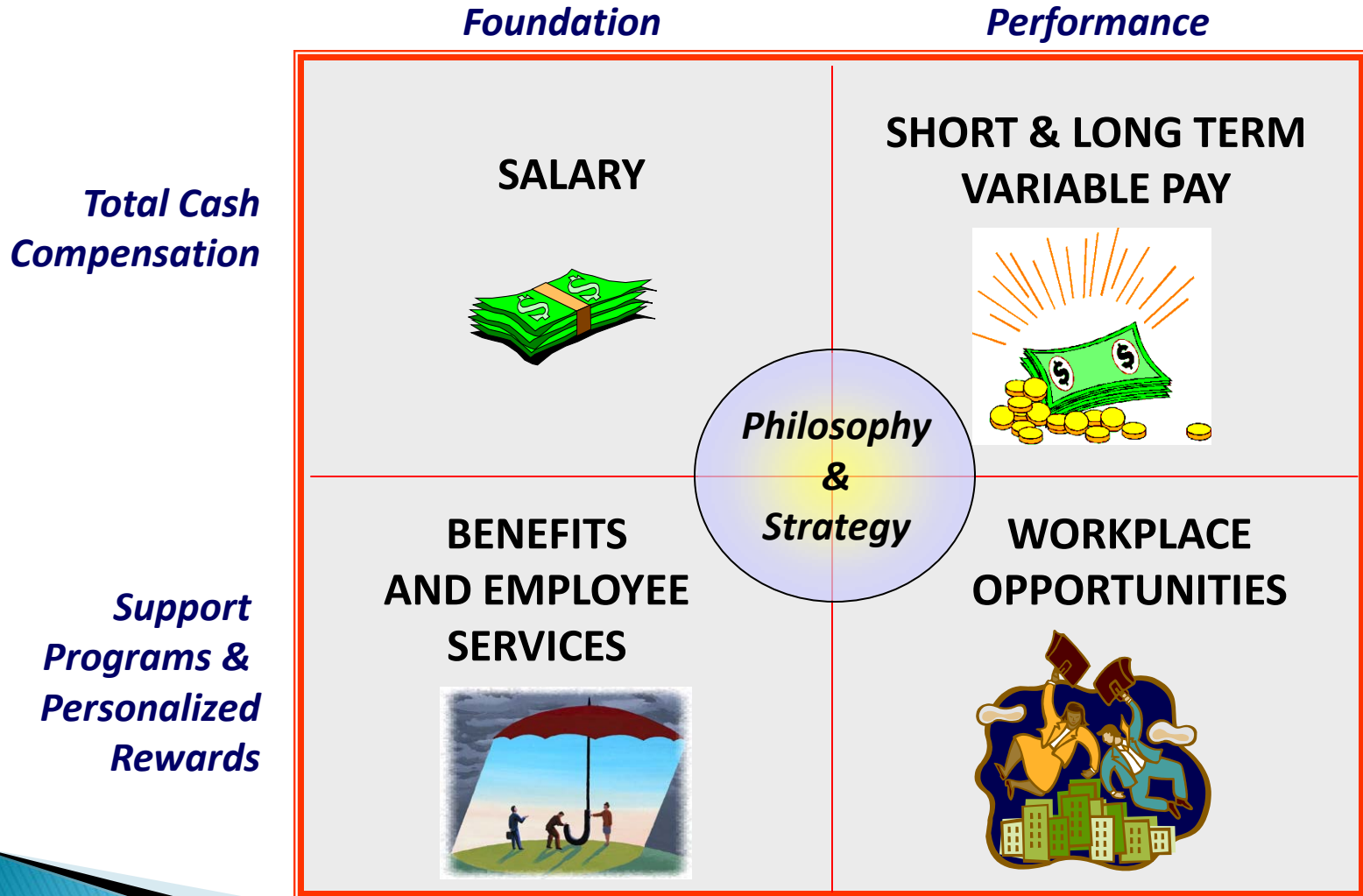
- I. Business conditions are clearly improving, but slowly.**
- II. Companies are seeking revenue growth – both organic and acquisition.**
- III. The talent wars are complex – there is high unemployment, yet many companies complain there is insufficient talent for their open jobs. Companies are recruiting those who are currently employed.**
- IV. Past practices are not “good enough” for what we are facing now.**

Our Agenda

- I. Assessment – What does your organization value?**
- II. Case Study Examples – Aligning Incentives with Core Values**
 - A. The Mentor Network – Pamela Sande**
 - B. CVS Caremark – Nora Costa**
- III. Discussion – What Makes Incentive Pay Systems Work?**
- IV. Conclusions and Primary Learnings**

Our Agenda

Rewards are Viewed as a System with Integrated Programs

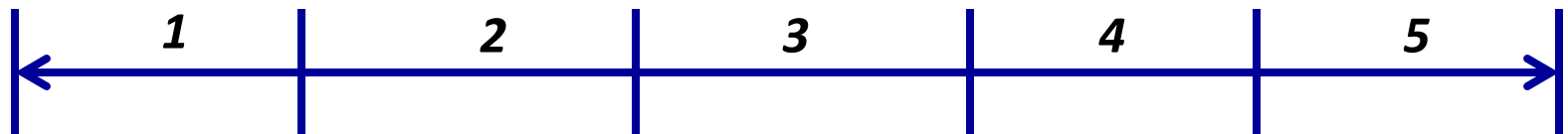


I. Assessment – What Does Your Organization Value?

Assessment Question:

Which is most important to your organization?

1. Personal Initiative Collaboration Teamwork
2. Need to know information Open, transparent information
3. Stability and predictability..... Growth and risk taking
4. Short term urgency..... Long-term development
5. Clear authority, accountability Decentralized, entrepreneurial



II. Case Study Examples – Making Incentives Work



The Mentor Network: Overview

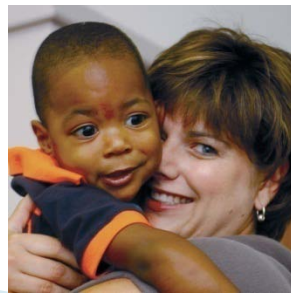
A leading provider of high-quality community-based health & human services, supporting individuals to achieve growth and independence, regardless of the physical, intellectual & behavioral challenges they face.

Human Services (HS)

- Adults and children with intellectual or developmental disabilities (I/DD) and youth with emotional, behavioral and/or medically complex challenges (ARY)

Specialty Rehabilitation Services (SRS)

- Individuals who have sustained brain injuries, spinal injuries and other catastrophic injuries and illnesses, including specialized services for Veterans

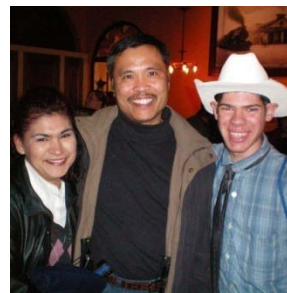


The Mentor Network: Summary Statistics

- 27,000 employees in 36 states
- Individuals served
 - 11,600 residential clients
 - 16,700 periodic services clients

The Mentor Network: Business Facts

- For profit
- Revenue >\$1 billion (mostly from state agencies)
- Owner: Private equity firm
- Business varies greatly by state
- High growth
 - Historically through acquisitions
 - Current objective: organic growth



The Mentor Network Management Incentive Plan

▶ Business objectives:

- High quality services for the individuals that we serve
- Achieve top line revenue growth (organically)
- Continue to grow EBITDA (critical for exit)
- Improve margins

▶ Plan design:

- 50% revenue
- 50% EBITDA
- Modifier: Can reduce payout by up to 50% for not meeting personal scorecard objectives that include quality of services standards (scorecards new for FY 2012)
- Discretionary component

▶ Results for FY 2012:

- Overall Network achieved highest revenues and EBITDA to date
- Scorecards played important role in keeping focus on important objectives but also added complexity to plan

CVS/Pharmacy 2012 Store Manager Incentive Plan

▶ Business needs:

- Drive store level profitability
- Increase customer satisfaction
- Reduce the number of “challenged” stores
- Empower innovation
- Tie the practice of our company values to customer satisfaction and profitability

▶ Plan Design:

- 34% Profitability
- 33% Customer Satisfaction
- 33% Sales

CVS/Pharmacy 2012 Store Manager Incentive Plan

- ▶ New tools to support reporting
 - Automated monthly score card provides new visibility
 - The new Values in Action recognition program helps managers engage and excite store crew
- ▶ Results to date....
 - ½ of “challenged” stores have improved their scores and moved into funding status
 - Front store sales have proportional increased
- ▶ An unintended result....improved Employee Engagement scores for store crew tied to new recognition program rollout

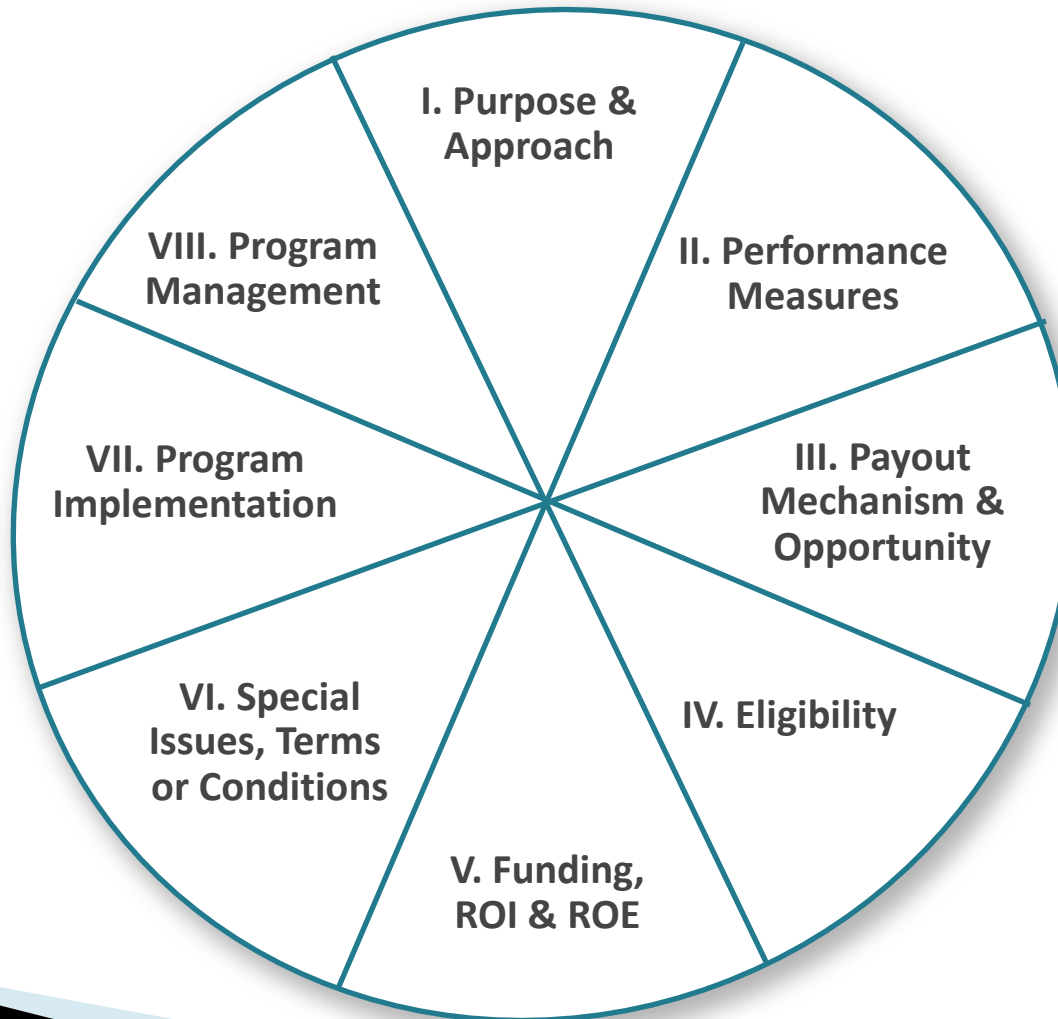
III. Discussion – What Makes Incentive Pay Plans Work?

Questions:

- 1. What values were reflected in these organizations?**
- 2. How did these incentive pay plans reinforce the values?**
- 3. What is making these incentive pay plans successful?**
- 4. Can you share an example in your experience or in your company about an incentive pay plan that worked particularly well? What was critical to its success?**

III. Discussion – What Makes Incentive Pay Plans Work?

There are over 100 Decisions: The Variable Pay Plan Design Wheel



IV. Conclusions and Key Learnings

A Top 10 List of “Best Practices”

- 1. The program has strong, active support by senior management. They are actively engaged in managing the process.**
- 2. Performance measures are aligned with the key success factors of the business.**
- 3. Measures are clear, reliable and meaningful. People “trust” the data.**
- 4. The performance goals are challenging AND achievable, and reflect improvements in performance.**
- 5. Participants know what actions to take to achieve desired results; outcomes are within their sphere of influence.**

IV. Conclusions and Key Learnings

A Top 10 List of “Best Practices”

6. Participants can track progress frequently. The feedback provides useful and timely information.
7. Efforts to achieve progress are reinforced and celebrated; barriers are eliminated or resolved quickly. There is a lot of positive feedback.
8. The payout levels are meaningful - both the opportunity and the actual.
9. The payouts are provided frequently enough to retain the attention of the participants.
10. The program improves over time.
 - Better goal setting,
 - More reliable measures,
 - Faster, more frequent feedback,
 - Coaching and competencies to achieve results,
 - Celebration of achievements.

IV. Conclusions and Comments

A Thought to Remember:

" The winds and the waves are always on the side of the ablest navigator."

---- Edward Gibbon

IV. Conclusions and Comments



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President



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Our mission:

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

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

Publications and Resources:

Sales Compensation Practices – A Special Survey (2011 and 2012)
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).

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